

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>City of Roseville, Michigan</u>	County Macomb
Audit Date June 30, 2005	Opinion Date November 23, 2005	Date Accountant Report Submitted To State: December 29, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- |   |   |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132])   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Certified Public Accountant (Firm Name): <b>Plante &amp; Moran, PLLC</b>			
Street Address 10 S. Main St., Suite 200	City Mount Clemens	State MI	ZIP 48043
Accountant Signature  <i>Plante &amp; Moran, PLLC</i>			

# **City of Roseville, Michigan**

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**Financial Report  
with Supplemental Information  
June 30, 2005**

# City of Roseville, Michigan

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## Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council  
City of Roseville, Michigan

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Roseville, Michigan as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Roseville, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Roseville, Michigan as of June 30, 2005 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, pension system schedule of funding progress, and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

A member of



A worldwide association of independent accounting firms

To the Honorable Mayor and  
Members of the City Council  
City of Roseville, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Roseville, Michigan's basic financial statements. The accompanying other financial and supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 23, 2005 on our consideration of the City of Roseville, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Plante & Moran, PLLC*

November 23, 2005

# City of Roseville, Michigan

## Management's Discussion and Analysis

### Using this Annual Report

The annual report consists of a series of narratives and financial statements. This narrative is intended to serve as an introduction to the City of Roseville's basic financial statements. The basic financial statements consist of three components: government-wide financial statements, fund financial statements, and the notes to the financial statements. This report also contains other supplementary information, as well as continuing disclosure of the schedules of indebtedness related to bonded debt issued by the City of Roseville.

The format of the annual report was modified in 2003 to comply with the reporting requirements of Government Accounting Standards Board Statement No. 34. The basic financial statements include two kinds of statements that present different views of the City. The statement of net assets and the statement of activities provide information about the activities of the City on a government-wide basis. They are designed to present a long-term view of the City's finances. The fund financial statements, which follow the above-mentioned statements, illustrate how the services provided by the City were financed in the short term, as well as what remains for future spending. Additionally, the fund financial statements report the City's operations in more detail than the government-wide financial statements.

### **Government-wide Financial Statements**

The government-wide statements provide information about the City as a whole, using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the City's assets and liabilities. Net assets, the difference between the City's assets and liabilities, are one way to measure the City's overall financial health. The statement of activities reflects all of the current year's revenues and expenses, regardless of when cash is actually received or paid.

The government-wide financial statements of the City are divided into two categories:

- **Governmental Activities** - Most of the City's basic services are included here such as police, fire, public works, recreation, and general administration. Property taxes, state-shared revenues, charges for services, and grants provide the majority of the funding.
- **Business-type Activities** - The City charges user fees to customers to cover costs of providing water and sewer services.

# City of Roseville, Michigan

## Management's Discussion and Analysis (Continued)

### Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds - not the City as a whole. Funds are accounting tools that the City uses to keep track of specific sources of funding or monitor spending. Some funds are required to be separately maintained by State law. The City Council establishes other funds to control and manage money for particular purposes.

The City has three kinds of funds:

- **Governmental Funds** - Most of the City's basic services are included in governmental funds, which focus on how cash and other financial assets that can be converted to cash, flow in and out, and the balance left at year end that is available for future spending. The governmental fund statements provide a detailed short-term view that highlights whether there are more or fewer financial resources available in the near future to finance the City's programs. Because the focus of governmental funds is narrower, it is useful to compare this information with similar information presented for governmental activities in the government-wide financial statements. Both the balance sheet and the statement of revenues, expenditures, and changes in fund balance for the governmental funds provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Roseville maintains nine individual governmental funds. Information is presented separately in the governmental fund balance sheet and statement of revenues, expenditures, and changes in fund balances for the General Fund, Major Streets Fund, Local Streets Fund, and Capital Projects Fund, all of which are considered to be major funds. Data for the other five governmental funds are combined into a single, aggregated presentation. Individual fund data for the nonmajor governmental funds is provided in the form of combining statements located in the other financial and supplemental information section of this report.

The City of Roseville adopts an annual appropriated budget for all of its governmental funds. Budgetary comparison statements have been provided for all major governmental funds to demonstrate budgetary compliance.

- **Proprietary Funds** - Proprietary fund reporting, like government-wide statements, provide both short-term and long-term financial information. The City maintains two different types of proprietary funds. Enterprise Funds are used to report the same functions presented in the business-type activities in the government-wide financial statements. The City of Roseville uses an Enterprise Fund to account for its water and sewer operation. This fund is considered a major fund of the City. Internal Service Funds accumulate and allocate costs internally among various functions. The City of Roseville uses an Internal Service Fund to account for its self-insurance program. Because this program predominantly benefits governmental rather than business-type functions, it has been consolidated within the governmental activities in the government-wide financial statements.



# City of Roseville, Michigan

## Management's Discussion and Analysis (Continued)

- **Fiduciary Funds** - Fiduciary funds are used to account for resources held for the benefit of parties outside of the City. Fiduciary funds are not reflected in the government-wide financial statements because the resources held in those funds are not available to finance the City's programs.

### Notes to the Financial Statements

Notes to the financial statements provide additional information that is essential to the full understanding of the data provided in the government-wide and fund financial statements.

### Required Supplemental Information

The required supplemental information is in addition to the basic financial statements and accompanying notes. This section of the report highlights the City's progress in funding its obligations to provide pension and other post-employment benefits to its employees. Also included in this section are the budgetary comparison statements for the General Fund, Major Special Revenue Funds, and Capital Projects Fund.

### Other Financial and Supplemental Information

The combining fund statements referred to earlier, as well as the City's schedule of indebtedness, are presented immediately following the required supplemental information section of this report.

### The City of Roseville as a Whole

The City's combined total net assets increased 1.2 percent from a year ago, increasing from \$94.8 million to \$95.9 million. A review of the governmental activities, separate from the business-type activities, shows an increase of approximately \$.5 million in total net assets or .6 percent, during fiscal 2005. The increase in total net assets is attributed to the capital additions and the reduction of current year debt exceeding the effect of the funding of retiree health care benefits, which reduced the City's cash reserves by \$1.2 million. Postemployment health care premiums have traditionally been paid by the City's pension fund through its available "excess earnings". During 2005, as a result of increasing health care costs coupled with declining interest rates, the pension fund was no longer able to cover this obligation alone. Business-type activities experienced a \$0.6 million increase in total net assets. This increase is the result of the City's water and sewer rate restructuring implemented during fiscal 2003, to cover the expected cost of critical repairs to the City's water and sewer infrastructure, coupled with disciplined expense control throughout fiscal 2005. In addition, this amount does not reflect contributions of water and sewer lines by developers due to limited growth and development within the City. Governmental unrestricted net assets, the portion of net assets available to finance day-to-day operations and future growth, decreased from \$20.0 million at June 30, 2004 to \$18.7 million at June 30, 2005. Unrestricted net assets for business-type activities increased by \$0.6 million at June 30, 2005.

# City of Roseville, Michigan

## Management's Discussion and Analysis (Continued)

### Governmental Activities

In a condensed format, the table below shows the comparison of net assets (in millions of dollars) as of June 30, 2005 to the prior year:

	June 30			
	2005	2004	Change	Percent
<b>Assets</b>				
Current assets	\$ 24.4	\$ 27.4	\$ (3.0)	(10.9)
Noncurrent assets:				
Investment in joint ventures	6.1	6.2	(0.1)	(1.6)
Restricted assets	-	1.7	(1.7)	100.0
Capital assets	78.8	76.2	2.6	3.4
Total assets	109.3	111.5	(2.2)	(2.0)
<b>Liabilities</b>				
Current liabilities	5.7	7.9	(2.2)	27.8
Long-term liabilities	20.8	21.3	(0.5)	(2.3)
Total liabilities	26.5	29.2	(2.7)	(9.2)
<b>Net Assets</b>				
Invested in capital assets - Net of related debt	59.0	55.4	3.6	6.5
Restricted	5.1	6.9	(1.8)	(26.1)
Unrestricted	18.7	20.0	(1.3)	(6.5)
Total net assets	<u>\$ 82.8</u>	<u>\$ 82.3</u>	<u>\$ 0.5</u>	0.6

# City of Roseville, Michigan

## Management's Discussion and Analysis (Continued)

The following table shows the changes in net assets (in millions of dollars) for the year ended June 30, 2005;

	June 30			
	2005	2004	Change	Percent
<b>Revenue</b>				
Program revenue:				
Charges for services	\$ 7.3	\$ 6.9	\$ 0.4	5.80
Operating grants and contributions	5.1	4.8	0.3	6.25
Capital grants and contributions	0.4	0.4	-	-
General revenue:				
Property taxes and related fees	20.8	20.0	0.8	4.00
State sources	5.3	5.8	(0.5)	(8.62)
Unrestricted investment earnings	0.7	0.7	-	-
Loss of sale of fixed asset	(0.1)	-	(0.1)	(100.00)
Transfers and other revenue	0.8	0.8	-	-
Total revenue	40.3	39.4	0.9	2.28
<b>Program Expenses</b>				
General government	9.7	8.0	1.7	21.25
Public safety	17.7	16.4	1.3	7.93
Public works - Highways and streets	8.0	9.5	(1.5)	(15.79)
Recreation and culture	3.6	3.5	0.1	2.86
Interest expense	0.8	0.9	(0.1)	(11.11)
Total program expenses	39.8	38.3	1.5	3.92
<b>Change in Net Assets</b>	<b>\$ 0.5</b>	<b>\$ 1.1</b>	<b>\$ (0.6)</b>	<b>(54.55)</b>

The City's total governmental revenues increase \$0.9 million from \$39.4 million in 2004 to \$40.3 million in 2005. Of total 2005 revenue, property taxes account for 52 percent, or \$20.8 million; state sources totaled 13 percent or \$5.3 million; charges for service support programs such as building inspections, recreation programs, etc. amounted to 18 percent or \$7.3 million; and the additional 17 percent of \$6.9 million represents grant and investment earnings. Despite increased revenue from service program activities, operating grants/contributions, and property taxes due to enhanced property values, the City received \$0.5 million less in state source revenues during fiscal 2005. While approximately \$62,000 of this decrease was related to the cuts in state-shared revenue, the larger portion was due to the City receiving grant funding in 2004 from the State for park improvements, the expenditures from which were recorded during fiscal 2003.

# City of Roseville, Michigan

## Management's Discussion and Analysis (Continued)

Expenses increased by approximately \$1.5 million, or 3.92 percent, over the previous fiscal year. This increase resulted from a negotiated 3 percent wage increase contained in the City's labor agreements, an increase of approximately 18 percent in total employee health care costs, a \$1.2 million supplement to fund retiree health care benefits, as well as the continued demand for various governmental services by residents.

During the year, the City continued to meet its actuarial required contributions for both defined benefit pension systems and allocated funding to cover future health care benefits. This is important for the City because future taxpayers should not be required to fund benefit payments that were earned in the current period.

### Business-type Activities

In a condensed format, the table below shows the comparison of net assets (in millions of dollars) as of June 30, 2005 to the prior year:

	June 30			
	2005	2004	Change	Percent
<b>Assets</b>				
Current assets	\$ 7.5	\$ 7.3	\$ 0.2	2.7
Noncurrent assets - Capital assets	<u>6.8</u>	<u>6.8</u>	<u>-</u>	-
Total assets	14.3	14.1	0.2	1.4
<b>Liabilities</b>				
Current liabilities	1.1	1.4	(0.3)	(21.4)
Long-term liabilities	<u>0.1</u>	<u>0.2</u>	<u>(0.1)</u>	(50.0)
Total liabilities	<u>1.2</u>	<u>1.6</u>	<u>(0.4)</u>	(25.0)
<b>Net Assets</b>				
Invested in capital assets - Net of related debt	6.8	6.8	-	-
Unrestricted	<u>6.3</u>	<u>5.7</u>	<u>0.6</u>	10.5
Total net assets	<u>\$ 13.1</u>	<u>\$ 12.5</u>	<u>\$ 0.6</u>	4.8

# City of Roseville, Michigan

## Management's Discussion and Analysis (Continued)

The following table shows the changes in net assets (in millions of dollars) for the year ended June 30, 2005;

	June 30			
	2005	2004	Change	Percent
<b>Revenue</b>				
Program revenue:				
Charges for services	\$ 10.0	\$ 10.0	\$ -	-
Operating expenses other than depreciation	(9.0)	(8.8)	(0.2)	2.27
Depreciation	(0.5)	(0.4)	(0.1)	25.00
Operating income (loss)	0.5	0.8	(0.3)	(37.50)
<b>Interest Income</b>	0.1	0.1	-	-
<b>Change in Net Assets</b>	<u>\$ 0.6</u>	<u>\$ 0.9</u>	<u>\$ (0.3)</u>	(33.33)

The City's business-type activities are recorded in the Water and Sewer Fund. Water and sewer operations are funded directly by user fees or charges for services. Revenues of the City's Water and Sewer Fund totaled \$10.1 million in 2005 and expenses were \$9.5 million. The City experienced an increase in net assets of \$0.6 million. For fiscal 2005, City Council approved a 5 percent increase in the City's water and sewer rates. This rate increase was in line with the projected increases forecasted by the City of Detroit and South Macomb Sanitary District. During fiscal 2003, City management revised the City's water and sewer rate structure to better isolate the effects of cost increases from the City of Detroit Water System and the South Macomb Sanitary District. Historically, the City had not passed on to its customers the full effect of previous Detroit water and sewer rate increases. This trend became impossible to continue, especially after Detroit forecasted rate increases to average 10 percent annually for the next three to five years. The water and sewer rates, in effect, reflect only the estimated cost for water units purchased or sewer treatment costs incurred by the City. No other expenses are factored into these rates. The City's local operating maintenance rate (LOM) primarily reflects the day-to-day operating costs and future capital outlay considerations of the Water and Sewer Fund, excluding the purchase of water and sewer treatment expense.

### The City's Funds

The analysis of the City's major funds follows the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as State of Michigan Act 51 major and local roads revenue sharing. The City's major funds for 2005 include the General Fund, the Major and Local Streets Funds, and the Capital Projects Fund.

# **City of Roseville, Michigan**

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## **Management's Discussion and Analysis (Continued)**

The General Fund pays for most of the City's governmental services. The most significant of these are police and fire, which incurred expenditures of approximately \$16.3 million of the \$17.1 million in public safety during 2005. The general operating millage levied by the City supports these two services. Overall, net assets in the General Fund decreased by \$1.1 million primarily attributable to the funding of retiree health care benefits, declining state-shared revenue payments, and the effects of long-term contractual obligations of the City.

The Major and Local Streets Funds are the two funds used by the City to account for capital outlay expenditures related to road construction and maintenance. State revenue sources and transfers from other funds support the activities recorded in these funds. Net assets in the Local Streets Fund decreased by \$1.4 million as the result of planned expenditures in excess of revenues for capital improvements to the City's local road system.

The Capital Projects Fund includes the City's portion of the Lake St. Clair Clean Water Initiative projects being administered on behalf of the City by Macomb County. Debt proceeds primarily support the activities within this fund. Net assets in the Capital Projects Fund decreased by \$1.8 million as the result of project expenditures in excess of revenues for capital improvements to the County's drainage system. The City maintains certain intangible rights to a County Drain asset equal to the City's share of the debt associated with the Clean Water Initiative project. In addition to construction-related expenditures, the City also recorded \$2.0 million in debt service expense resulting from the retirement of debt previously issued by the County related to this project.

### **General Fund Budgetary Highlights**

Over the year, City administration and the City Council monitor and amend the budget to take into account unanticipated events that occur during the year. At year end, actual General Fund revenues were approximately \$33,000 above budgeted amounts primarily due to higher fines and forfeitures. Despite measures to increase operational efficiencies by City departments, actual expenditures exceeded budgeted amounts by approximately \$87,000. This increase is attributable to grant expenditures, which the City conservatively budgets for due to the nature and timing of this type of revenue source.

### **Capital Assets and Long-term Debt Administration**

At the end of fiscal 2005, the City had \$85.6 million invested in a wide range of net capital assets, including land, buildings, police and fire equipment, computer equipment, infrastructure assets (roads, bridges, sidewalks, and storm drains in which it has invested since 1980), and water and sewer lines. Included in the City's infrastructure assets are certain intangible rights to a County Drain asset equal to the City's share of the debt associated with the Clean Water Initiative project. The total value of the City's infrastructure assets, net of depreciation contained in this report, is \$32.4 million and \$29.1 million for fiscal 2005 and 2004, respectively.

# City of Roseville, Michigan

## Management's Discussion and Analysis (Continued)

During fiscal 2005, the County retired \$2 million of debt related to the Lake St. Clair Clean Water Initiative Project - Series B with the unspent bond proceeds from the issuance of SRF Project 5186-02 and 5186-03. Debt reported in the financial statements typically relates to the purchase or construction of the above-mentioned capital assets and is reported as a liability on the statement of net assets. See the notes to the financial statements section of this report for additional information.

### Economic Factors and Next Year's Budgets and Rates

Since 1995, the City has reduced its property tax millage rate by 7 percent. The City has consistently maintained a tax rate of 16.38 mills for the past eight years. Strong expenditure controls practiced by City management and past growth in the City's tax base have helped to accomplish this objective. Property taxes make up approximately 65 percent of our General Fund operating budget. Because of Proposal A, which limits the growth on existing property to the rate of inflation, and a lessening of new growth and development in the City, maintaining the existing tax rate millage becomes more difficult each year. The inflation rate for fiscal 2005 was 2.3 percent. The inflation rate for the coming year is predicted to be low as well. Although the City anticipates a marginal increase in property values each year, this increase cannot compensate for the effects of declining state-shared revenue payments felt by the City in recent years. In 2000, the City received \$6.3 million in revenue-sharing payments from the State of Michigan. State-shared revenue payments in 2005 were approximately \$5 million, which represents nearly 16 percent of the General Fund budget. For fiscal 2005-2006, the City has conservatively budgeted \$4.7 million due to the State's continued structural deficit problems. The effects of declining state-shared revenues are further intensified once inflationary increases are factored into the equation. For example, if the City had received state-shared revenue payments, adjusted for the effects of inflation, the City would have realized an additional \$9 million dollars in state funding since 2000. These factors, coupled with other varying revenue sources, have lessened the City's ability to reduce property taxes in the future.

Expenses, on the other hand, continue to rise faster than inflation in many areas, many of which are contractual in nature and beyond the immediate control of City management. Although City departments continue to make concerted efforts to keep departmental expenditures at a minimum, it is the City's contractual obligations which most adversely influence the City's bottom line. Contractual obligations such as negotiated wage increases, pension contributions, and health care benefits are increasing at rates in excess of inflation. While the City anticipates overall expenses to increase on average between 5 percent and 10 percent annually, we expect continued medical cost increases of 15 percent per year. Without question, the most adverse impact to fiscal 2006 will be the estimated \$3.3 million dollar funding of retiree health care benefits. Due to declining returns on fund investments coupled with skyrocketing health care costs, the pension fund is once again unable to shoulder the financial burden related to retiree health care. In addition, due to slow economic recovery of the financial markets, it is unlikely the pension fund will be able to afford this expenditure in the near future. Despite increased designations by the City over the past two years to fund future retiree medical costs, the City remains severely underfunded with regards to GASB Statement 45. The new pronouncement

# **City of Roseville, Michigan**

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## **Management's Discussion and Analysis (Continued)**

requires the government-wide financial statement to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement goes into effect on June 30, 2009. Because of these concerns, the City will continue to monitor and adjust expenditures to our revenue base to ensure that the City maintains adequate fund balance reserves.

### **Contacting the City's Financial Management**

This financial report is intended to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, we invite you to contact the city manager at the City of Roseville, 29777 Gratiot Avenue, Roseville, MI 48066.



# City of Roseville, Michigan

## Statement of Net Assets June 30, 2005

	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Total
<b>Assets</b>			
Cash and investments (Note 3)	\$ 19,502,399	\$ 5,688,018	\$ 25,190,417
Receivables - Net:			
Taxes	399,094	-	399,094
Customers		2,151,949	2,151,949
Special assessment	203,823	-	203,823
Accrued interest	60,107	8,274	68,381
Other	1,010,139	39,682	1,049,821
Internal balance	439,390	(439,390)	-
Due from other governments	2,439,096	-	2,439,096
Inventories	334,032	135,832	469,864
Investments in joint ventures (Note 13)	6,131,657	-	6,131,657
Capital assets not being depreciated (Note 5)	31,339,447	-	31,339,447
Capital assets being depreciated - Net (Note 5)	47,475,678	6,767,050	54,242,728
<b>Total assets</b>	<b>109,334,862</b>	<b>14,351,415</b>	<b>123,686,277</b>
<b>Liabilities</b>			
Accounts payable	1,642,483	841,276	2,483,759
Due to other governmental units	-	43,015	43,015
Accrued interest	181,616	-	181,616
Other liabilities	889,415	21,691	911,106
Cash bonds and deposits	349,062	117,433	466,495
Long-term liabilities:			
Debt obligations- Within one year (Note 7)	1,380,767	-	1,380,767
Debt obligations - More than one year (Note 7)	19,168,428	-	19,168,428
Compensated absences:			
Short-term (Note 7)	1,289,473	78,307	1,367,780
Long-term (Note 7)	1,609,265	129,921	1,739,186
<b>Total liabilities</b>	<b>26,510,509</b>	<b>1,231,643</b>	<b>27,742,152</b>
<b>Net Assets</b>			
Invested in capital assets - Net of related debt	58,965,174	6,767,050	65,732,224
Restricted:			
Sanitation	1,410,111	-	1,410,111
Streets and highways	1,722,442	-	1,722,442
Debt service	1,359,389	-	1,359,389
Law and drug enforcement	711,740	-	711,740
Unrestricted	18,655,497	6,352,722	25,008,219
<b>Total net assets</b>	<b>\$ 82,824,353</b>	<b>\$ 13,119,772</b>	<b>\$ 95,944,125</b>

# City of Roseville, Michigan

	Program Revenues			
	Charges for	Operating	Capital Grants	
Expenses	Services	Grants and	and	
		Contributions	Contributions	
<b>Functions/Programs</b>				
Primary government:				
Governmental activities:				
General government	\$ 9,608,705	\$ 2,040,968	\$ 121,841	\$ -
Public safety	17,686,145	4,349,954	826,057	-
Public works	8,015,694	622,587	3,308,645	413,343
Recreation and culture	3,565,546	265,838	814,176	-
Interest expense	780,176	-	-	-
Total governmental activities	39,656,266	7,279,347	5,070,719	413,343
Business-type activities - Water and sewer	9,500,118	9,992,562	-	-
Total primary government	<u>\$ 49,156,384</u>	<u>\$ 17,271,909</u>	<u>\$ 5,070,719</u>	<u>\$ 413,343</u>
General revenues:				
Property taxes				
State-shared revenues				
Investment interest				
Loss on sale of capital assets and other assets				
Franchise fees				
Insurance refunds				
Miscellaneous				
Total general revenues				
<b>Change in Net Assets</b>				
<b>Net Assets - Beginning of year</b>				
<b>Net Assets - End of year</b>				

**Statement of Activities**  
**Year Ended June 30, 2005**

Net (Expense) Revenue and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (7,445,896)	\$ -	\$ (7,445,896)
(12,510,134)	-	(12,510,134)
(3,671,119)	-	(3,671,119)
(2,485,532)	-	(2,485,532)
<u>(780,176)</u>	<u>-</u>	<u>(780,176)</u>
(26,892,857)	-	(26,892,857)
<u>-</u>	<u>492,444</u>	<u>492,444</u>
(26,892,857)	492,444	(26,400,413)
20,797,325	-	20,797,325
5,278,583	-	5,278,583
690,108	105,033	795,141
(55,606)	-	(55,606)
462,958	-	462,958
88,048	-	88,048
<u>110,187</u>	<u>-</u>	<u>110,187</u>
<u>27,371,603</u>	<u>105,033</u>	<u>27,476,636</u>
478,746	597,477	1,076,223
<u>82,345,607</u>	<u>12,522,295</u>	<u>94,867,902</u>
<b><u>\$ 82,824,353</u></b>	<b><u>\$ 13,119,772</u></b>	<b><u>\$ 95,944,125</u></b>

# City of Roseville, Michigan

## Governmental Funds Balance Sheet June 30, 2005

	General Fund	Major Streets Fund	Local Streets Fund	Capital Projects Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>						
Cash and investments (Note 3)	\$ 11,482,535	\$ 797,698	\$ 33,857	\$ 3,075,095	\$ 2,641,253	\$ 18,030,438
Receivables (Note 4):						
Taxes	384,577	-	-	-	14,517	399,094
Special assessments	-	-	-	203,823	-	203,823
Accrued interest	24,788	-	-	35,319	-	60,107
Other	748,807	139,918	10,856	12,494	39,493	951,568
Due from other governmental units	1,606,465	677,473	118,272		36,886	2,439,096
Due from other funds (Note 6)	638,522	348,121	456,467	179,140	3,764	1,626,014
<b>Total assets</b>	<b>\$ 14,885,694</b>	<b>\$ 1,963,210</b>	<b>\$ 619,452</b>	<b>\$ 3,505,871</b>	<b>\$ 2,735,913</b>	<b>\$ 23,710,140</b>
<b>Liabilities and Fund Balances</b>						
<b>Liabilities</b>						
Accounts payable	\$ 518,123	\$ 230,345	\$ 38,806	\$ 75,428	\$ 99,478	\$ 962,180
Due to other funds (Note 6)	-	262,314	324,472	83,470	516,368	1,186,624
Other liabilities	887,444	-	-	-	1,971	889,415
Cash bonds and deposits	348,312	-	-	750	-	349,062
Deferred revenue (Note 4)	444,466	-	4,283	101,736	46,967	597,452
<b>Total liabilities</b>	<b>2,198,345</b>	<b>492,659</b>	<b>367,561</b>	<b>261,384</b>	<b>664,784</b>	<b>3,984,733</b>
<b>Fund Balances</b>						
Reserved for:						
Drug law enforcement	-	-	-	-	711,740	711,740
Sanitation	1,410,111	-	-	-	-	1,410,111
Unreserved (Note 12)	11,277,238	1,470,551	251,891	3,244,487	1,359,389	17,603,556
<b>Total fund balances</b>	<b>12,687,349</b>	<b>1,470,551</b>	<b>251,891</b>	<b>3,244,487</b>	<b>2,071,129</b>	<b>19,725,407</b>
<b>Total liabilities and fund balances</b>	<b>\$ 14,885,694</b>	<b>\$ 1,963,210</b>	<b>\$ 619,452</b>	<b>\$ 3,505,871</b>	<b>\$ 2,735,913</b>	<b>\$ 23,710,140</b>
Fund balance - Total governmental funds						\$ 19,725,407
Amounts reported for governmental activities in the statement of net assets are different because:						
Capital assets used in governmental activities are not financial resources and are not reported in the funds						78,815,125
Allowance for doubtful accounts is not reported in the funds for taxes receivable to be collected over several years						(9,000)
Inventory is not available to pay for current period expenditures						334,032
Deferred revenue balances are expected to be collected over several years and are not available to pay for current year expenditures						597,452
Long-term debt is not due and payable in the current period and is not reported in the funds						(20,549,195)
Accrued compensation is not due and payable in the current period and is not reported in the funds						(2,898,738)
Accrued interest is not due and payable in the current period and is not reported in the funds						(181,616)
Financial interests in joint ventures outside the governmental activities are not considered financial resources and therefore are not reported in the funds						6,131,657
Internal Service Funds are included as part of governmental activities						859,229
<b>Net assets of governmental activities</b>						<b>\$ 82,824,353</b>

# City of Roseville, Michigan

## Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2005

	General Fund	Major Streets Fund	Local Streets Fund	Capital Projects Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenues</b>						
Property taxes	\$ 20,316,805	\$ -	\$ -	\$ -	\$ 560,296	\$ 20,877,101
Fees and fines	2,266,492	-	-	-	-	2,266,492
Licenses and permits	459,436	-	-	-	-	459,436
Federal sources	184,214	-	-	17,312	619,597	821,123
State sources	5,172,093	2,769,261	737,702	-	-	8,679,056
Local sources	-	-	-	-	209,863	209,863
Special assessments	-	-	-	468,549	-	468,549
Charges for services	293,150	-	-	-	-	293,150
Investment income	529,393	36,587	2,469	94,409	68,734	731,592
Other	2,034,190	-	-	192,102	409,836	2,636,128
<b>Total revenues</b>	<b>31,255,773</b>	<b>2,805,848</b>	<b>740,171</b>	<b>772,372</b>	<b>1,868,326</b>	<b>37,442,490</b>
<b>Expenditures</b>						
Current:						
General government	5,904,590	200,000	70,000	-	131,880	6,306,470
Public safety	17,096,545	-	-	-	76,804	17,173,349
Public works	2,361,900	895,820	1,264,102	-	217,919	4,739,741
Recreation and culture	2,721,721	-	-	-	589,584	3,311,305
Construction and development	-	814,068	1,075,859	1,198,607	-	3,088,534
Debt service:						
Principal	-	-	-	2,028,286	1,311,569	3,339,855
Interest and other charges	-	-	-	-	780,176	780,176
Other	3,671,920	-	-	-	722,876	4,394,796
<b>Total expenditures</b>	<b>31,756,676</b>	<b>1,909,888</b>	<b>2,409,961</b>	<b>3,226,893</b>	<b>3,830,808</b>	<b>43,134,226</b>
<b>Excess of Revenues Over (Under)</b>						
<b>Expenditures</b>	(500,903)	895,960	(1,669,790)	(2,454,521)	(1,962,482)	(5,691,736)
<b>Other Financing Sources (Uses)</b>						
Transfers in (Note 6)	-	76,363	602,512	-	956,954	1,635,829
Transfers out (Note 6)	(707,521)	(549,169)	(295,669)	(83,470)	-	(1,635,829)
Proceeds from sale of assets	108,066	-	-	-	-	108,066
Proceeds from debt issuance	-	-	-	784,009	-	784,009
<b>Total other financing sources (uses)</b>	<b>(599,455)</b>	<b>(472,806)</b>	<b>306,843</b>	<b>700,539</b>	<b>956,954</b>	<b>892,075</b>
<b>Change in Fund Balances</b>	<b>(1,100,358)</b>	<b>423,154</b>	<b>(1,362,947)</b>	<b>(1,753,982)</b>	<b>(1,005,528)</b>	<b>(4,799,661)</b>
<b>Fund Balances - Beginning of year</b>	<b>13,787,707</b>	<b>1,047,397</b>	<b>1,614,838</b>	<b>4,998,469</b>	<b>3,076,657</b>	<b>24,525,068</b>
<b>Fund Balances - End of year</b>	<b>\$ 12,687,349</b>	<b>\$ 1,470,551</b>	<b>\$ 251,891</b>	<b>\$ 3,244,487</b>	<b>\$ 2,071,129</b>	<b>\$ 19,725,407</b>

# City of Roseville, Michigan

## **Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2005**

<b>Net Change in Fund Balances - Total Governmental Funds</b>	<b>\$ (4,799,661)</b>
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Capital outlay	5,638,113
Depreciation	(2,820,477)

In the statement of activities, accrued interest on investments is recorded when earned, but not in the funds where it is recorded when collected	(41,441)
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In the statement of activities, the gain on sale of assets is recorded; in the funds, the proceeds from sale of assets are reported	(163,672)
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Revenues are recorded in the statement of activities when the assessment is set; they are not reported in the funds until collected or collectible within 60 days of year end	(143,185)
---	-----------

Purchase of inventory is an expenditure in the governmental funds, but not in the statement of activities, where it increases inventory asset balance	20,548
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Joint venture revenue	(41,768)
-----------------------	----------

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities, where it reduces long-term debt	3,339,855
--	-----------

Issuance of debt is an other financing source in the governmental funds, but not in the statement of activities, where it increases long-term debt	(784,009)
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In the statement of activities, accrued interest on debt is recorded as it accrues, but not in the governmental funds, where it is recorded when payable	29,638
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In the statement of activities, additional county fixed assets constructed exceed the original bonded indebtedness due to revenue being generated by earnings from income to support additional construction costs	545,398
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Change in long-term liability related to the personal property tax multiplier	(59,768)
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Decreases in accumulated employee sick and vacation pay, as well as estimated general liability claims, are recorded when earned in the statement of activities	47,202
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Internal Service Funds are also included as governmental activities	(288,027)
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<b>Change in Net Assets of Governmental Activities</b>	<b><u>\$ 478,746</u></b>
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# City of Roseville, Michigan

## Proprietary Funds Statement of Net Assets June 30, 2005

	Business-type Activities	Governmental Activities
	Enterprise Fund - Water and Sewer	Internal Service Fund - Self Insurance
<b>Assets</b>		
Current assets:		
Cash and investments (Note 3)	\$ 5,688,018	\$ 1,471,960
Receivables:		
Customers	2,151,949	-
Accrued interest	8,274	-
Other	39,682	67,572
Due from other funds (Note 6)	77	-
Inventories	135,832	-
Total current assets	8,023,832	1,539,532
Noncurrent assets - Capital assets - Net (Note 5)	6,767,050	-
Total assets	14,790,882	1,539,532
<b>Liabilities</b>		
Current liabilities:		
Accounts payable	841,276	680,303
Accrued and other liabilities	21,691	-
Due to other funds (Note 6)	439,467	-
Due to other governmental units	43,015	-
Cash bonds and deposits	117,433	-
Provision for current portion of compensated absences (Note 7)	78,307	-
Total current liabilities	1,541,189	680,303
Noncurrent liabilities - Provision for compensated absences - Net of current portion (Note 7)	129,921	-
Total liabilities	1,671,110	680,303
<b>Net Assets</b>		
Investment in capital assets - Net of related debt	6,767,050	-
Unrestricted	6,352,722	859,229
Total net assets	\$ 13,119,772	\$ 859,229

# City of Roseville, Michigan

## Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2005

	Business-type Activities	Governmental Activities
	Enterprise Fund - Water and Sewer	Internal Service Fund - Self Insurance
<b>Operating Revenue</b>		
Water sales	\$ 1,724,456	\$ -
Sewage treatment	4,419,226	-
Penalties	242,335	-
Maintenance charges	3,463,623	-
Other	142,922	-
Charges for service	-	6,894,732
	<hr/>	<hr/>
Total operating revenue	9,992,562	6,894,732
<b>Operating Expenses</b>		
Water purchases	1,656,921	-
Sewage treatment	4,646,444	-
Salaries and wages	1,100,457	-
Fringe benefits	591,900	-
Depreciation	477,459	-
Benefit payments and other costs	-	7,193,866
Other	1,026,937	-
	<hr/>	<hr/>
Total operating expenses	9,500,118	7,193,866
<b>Operating Income (Loss)</b>	492,444	(299,134)
<b>Nonoperating Revenue</b> - Interest income	105,033	11,107
	<hr/>	<hr/>
<b>Change in Net Assets</b>	597,477	(288,027)
<b>Net Assets</b> - Beginning of year	12,522,295	1,147,256
	<hr/>	<hr/>
<b>Net Assets</b> - End of year	<u>\$ 13,119,772</u>	<u>\$ 859,229</u>



# City of Roseville, Michigan

## Proprietary Funds Statement of Cash Flows Year Ended June 30, 2005

	Business-type Activities	Governmental Activities
	Enterprise Fund - Water and Sewer	Internal Service Fund - Self Insurance
<b>Cash Flows from Operating Activities</b>		
Receipts from customers	\$ 9,958,996	\$ 7,577,177
Payments to employees for services	(1,736,633)	-
Payments to suppliers for goods and services	(7,657,825)	-
Payment connected with interfund service	439,467	-
Receipts connected with interfund service	66,813	-
Claims paid	-	(7,196,903)
Net cash provided by operating activities	1,070,818	380,274
<b>Cash Flows from Capital and Related Financing Activities</b> - Purchase of capital assets	(402,957)	-
<b>Cash Flows from Investing Activities</b>		
Interest received on investments	115,554	-
Purchase of investments	(783,415)	11,107
Net cash provided by (used in) investing activities	(667,861)	11,107
<b>Net Increase in Cash and Cash Equivalents</b>	-	391,381
<b>Cash and Cash Equivalents</b> - Beginning of year	75	1,080,579
<b>Cash and Cash Equivalents</b> - End of year	<u>\$ 75</u>	<u>\$ 1,471,960</u>
<b>Balance Sheet Classification of Cash and Cash Equivalents</b>		
Cash and cash equivalents	\$ 5,688,018	\$ 1,471,960
Investments	(5,687,943)	-
Total cash and cash equivalents	<u>\$ 75</u>	<u>\$ 1,471,960</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities</b>		
Operating income (loss)	\$ 492,444	\$ (299,134)
Adjustments to reconcile operating income (loss) to net cash from operating activities:		
Depreciation and amortization	477,459	-
Changes in assets and liabilities:		
Receivables	(32,784)	(67,571)
Other assets	(15,220)	-
Due from other funds	66,813	750,016
Inventory	3,492	-
Accounts payable	(349,476)	(3,037)
Accrued and other liabilities	(44,274)	-
Due to other governmental units	18,458	-
Due to other funds	439,467	-
Cash bond and deposits	14,439	-
Net cash provided by operating activities	<u>\$ 1,070,818</u>	<u>\$ 380,274</u>

**Noncash Investing, Capital, and Financing Activities** - During the year ended June 30, 2005, the Enterprise Fund had no capital contributions in the form of capital assets related to water and sewer lines donated by developers.

# City of Roseville, Michigan

## Fiduciary Funds Statement of Net Assets June 30, 2005

	Employees' Pension Trust Fund	Agency Funds
<b>Assets</b>		
Cash and cash equivalents	\$ -	\$ 51,688
Bank investment pool funds	-	207,627
Mutual funds	4,783,206	-
Corporate bonds	20,425,115	-
U.S. government securities	20,339,221	-
Common stock	72,547,743	-
Cash and investments held as collateral for securities lending	8,712,682	-
Accrued interest	469,772	-
	<u>127,277,739</u>	<u>-</u>
Total assets	127,277,739	<u><u>\$ 259,315</u></u>
<b>Liabilities</b>		
Accounts payable	84,703	\$ 9,341
Accrued and other liabilities	-	249,566
Amounts due to broker under securities lending agreements	8,712,682	-
Due to other governmental units	-	408
	<u>8,797,385</u>	<u>249,974</u>
Total liabilities	8,797,385	<u><u>\$ 259,315</u></u>
<b>Net Assets - Held in trust for employee benefits</b>	<u><u>\$ 118,480,354</u></u>	

# City of Roseville, Michigan

## Fiduciary Funds Statement of Changes in Net Assets Year Ended June 30, 2005

	<u>Employees' Pension Trust Fund</u>
<b>Additions</b>	
Investment income:	
Interest and dividends	\$ 3,337,122
Net increase in fair value of investments	10,053,344
Less investment expenses	<u>(512,002)</u>
Net investment income	12,878,464
Contributions:	
Employer	3,295,300
Employee	<u>1,268,474</u>
Total contributions	4,563,774
Other additions	<u>53,610</u>
Total additions	17,495,848
<b>Deductions</b>	
Benefit payments	6,690,442
Refunds of contributions	473,515
Hospitalization expenses	1,711,949
Administrative expenses	<u>130,910</u>
Total deductions	<u>9,006,816</u>
<b>Net Increase</b>	8,489,032
<b>Net Assets Held in Trust for Benefits</b>	
Beginning of year	<u>109,991,322</u>
End of year	<u><u>\$ 118,480,354</u></u>
<b>Reserved for Pension Benefits - Beginning of year</b>	\$ 108,207,824
<b>Net Increase</b>	<u>9,888,590</u>
<b>Reserved for Pension Benefits - End of year</b>	<u><u>\$ 118,096,414</u></u>
<b>Reserved for Postemployment Health Care Benefits - Beginning of year</b>	\$ 1,783,498
<b>Net Decrease</b>	<u>(1,399,558)</u>
<b>Reserved for Pension Benefits - End of year</b>	<u><u>\$ 383,940</u></u>

### **Note 1 - Summary of Significant Accounting Policies**

The accounting policies of the City of Roseville, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City:

#### **Reporting Entity**

The City of Roseville, Michigan is governed by an elected seven-member council. As required by accounting principles generally accepted in the United States of America, these financial statements present the City of Roseville, Michigan and its component units. The individual component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

#### **Blended Component Units**

The City of Roseville Building Authority is governed by a board that is appointed by the City Council. Although it is legally separate from the City, it is reported as if it were part of the primary government because its primary purpose is to finance and construct the City's public buildings.

The City of Roseville Employees' Retirement System has been blended into the City's financial statements. The system is governed by a five-member Pension Board that includes three individuals chosen by the City Council. The system is reported as if it were part of the primary government because of the fiduciary responsibility that the City retains relative to the operations of the retirement system.

The City of Roseville District Court Funds have also been blended into the City's financial statements. The financial activities of the funds are limited to collections of amounts that are subsequently returned or paid to third parties. The funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations. The District Court is reported as if it were part of the primary government because of the fiduciary responsibility that the City retains relative to the operations of the District Court.

The City has excluded the Housing Commission from this report because the City is not able to impose its will on the Housing Commission. The Housing Commission's financial statements have been issued under separate cover.

**Jointly Governed Organizations** - Jointly governed organizations are discussed in Note 13.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

#### **Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and the major Enterprise Fund are reported as separate columns in the fund financial statements.

#### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the full accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

### **Note I - Summary of Significant Accounting Policies (Continued)**

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available to finance expenditures of the current fiscal period. Property taxes, state-shared revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

**General Fund** - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

**Major Streets Fund** - The Major Streets Fund accounts for the resources of State gas and weight tax revenues that are restricted for use on major streets.

**Local Streets Fund** - The Local Streets Fund accounts for the resources of State gas and weight tax revenues that are restricted for use on local streets.

**Capital Projects Fund** - The Capital Projects Fund accounts for the proceeds of bond issuances and all other resources used for the purpose of constructing all major capital improvement projects of the City.

The City reports the following major proprietary fund:

**Enterprise Fund** - The Enterprise Fund accounts for the activities of the water distribution system and sewage collection system.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

Additionally, the City reports the following fund types:

**Internal Service Fund** - The Internal Service Fund accounts for the financing of goods or services provided by one department or agency to other departments or agencies of the City. The City's Internal Service Fund is used to account for current health care coverage provided for City employees and their dependents and to provide a reserve for future catastrophic health care claims.

**Trust and Agency Funds** - Trust and Agency Funds account for assets held by the City in a trustee capacity or as an agent for individuals, employees, organizations, other governments, or other funds. These include the Employees' Pension Trust Fund, the Miscellaneous Agency Fund, the P.A.I.R. Fund, the Tax Collection Fund, and the District Court Fund. The Employees' Pension Trust Fund is accounted for in the same manner as proprietary funds. The other Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the City's proprietary fund relates to charges to customers for water and sewer sales. The Enterprise Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for the proprietary fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Private sector standards of accounting issued before December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to apply private sector standards issued after November 30, 1989 for its Enterprise Fund.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

#### **Assets, Liabilities, and Net Assets or Equity**

**Bank Deposits and Investments** - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

**Property Taxes** - All trade and property tax receivables are shown net of allowance for uncollectible amounts. Properties are assessed as of December 31 of each year. The related property taxes are levied on each July 1 on the taxable valuation of the property as of the preceding December 31. Taxes are due by September 1 with the final collection date of February 28. Taxes are considered delinquent on March 1, at which time penalties and interest are assessed.

The City tax millage rate is 16.38, which is comprised of 14.00 general operating, 1.93 refuse collection, which is recorded in the General Fund, .16 debt service, and .29 Chapter 20 drain. The General Fund, General Debt Fund, and Chapter 20 Drain Fund received \$20,316,805, \$200,375, and \$359,921, respectively, in property tax revenue in the current year.

**Inventories and Prepaid Costs** - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

**Capital Assets** - Capital assets, which include property, buildings, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.



### **Note I - Summary of Significant Accounting Policies (Continued)**

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and building improvements	20-50 years
Roads and sidewalks	30-50 years
Water and sewer distribution systems	50-75 years
Other tools and equipment	3-15 years

**Compensated Absences (Vacation and Sick Leave)** - The City allows employees to accumulate earned but unused sick and vacation pay benefits. A liability for these amounts is reported in governmental funds only as it comes due for payment. The government-wide and proprietary statements accrue vacation and personal pay as it is earned and sick pay is accrued as it is used or vested (whichever is earlier). As of June 30, 2005, \$94,075 represents the portion reported in the governmental funds.

**Long-term Obligations** - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bond using the effective interest method. Bonds payable are reported net of applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the debt. On the fund financial statements, governmental fund types recognize bond premium and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

**Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

# City of Roseville, Michigan

## Notes to Financial Statements June 30, 2005

### Note 2 - Stewardship, Compliance, and Accountability

**State Construction Code Act** - The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. Beginning January 1, 2000, the law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative shortfall generated since January 1, 2000 is as follows:

Cumulative shortfall - July 1, 2004			\$ (1,298,947)
Building permit revenue			327,646
Less related expenditures:			
Direct costs	\$	756,859	
Estimated indirect costs		<u>75,686</u>	<u>832,545</u>
Current year shortfall			<u>(504,899)</u>
Cumulative shortfall - June 30, 2005			<u><u>\$ (1,803,846)</u></u>

### Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes the City to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The City is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Employee Pension Trust Fund is also authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse purchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

### **Note 3 - Deposits and Investments (Continued)**

The City has designated one bank for the deposit of its funds. The investment policy adopted by the City Council in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of State statutory authority as listed above. The City's deposits and investment policies are in accordance with statutory authority.

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

**Custodial Credit Risk of Bank Deposits** - Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The City's investment policy does not directly address a deposit policy for custodial credit risk. At year end, the City had \$11,641,623 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

**Custodial Credit Risk of Investments** - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have a policy for custodial credit risk. At year end, none of the City's investments were subject to custodial credit risk due to one of the following:

- Investments were part of an insured pool
- Investments were book-entry only in the name of the City and were fully insured
- Investments were part of a mutual fund
- Investments were held by an agent in the City's name

# City of Roseville, Michigan

## Notes to Financial Statements June 30, 2005

### Note 3 - Deposits and Investments (Continued)

**Interest Rate Risk** - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities, other than commercial paper, which can only be purchased with 270-day maturity. At year end, the average maturities of investments are as follows:

Investment	Fair Value	Weighted Average Maturity
City of Roseville Employees' Retirement System:		
Corporate bonds	\$ 20,425,115	1.58 years
U.S. government or agency bond or note	20,339,221	3.48 years

**Credit Risk** - In compliance with State law, the City's investment policy limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
Government-wide - Pooled funds	\$ 1,498,209	AI	Moody's
City of Roseville Employees' Retirement System:			
Corporate bonds	5,829,037	AAA	S&P
Corporate bonds	149,792	Aaa	Moody's
Corporate bonds	492,723	AA to AA-	S&P
Corporate bonds	5,454,869	A to A-	S&P
Corporate bonds	8,498,694	BBB to BBB-	S&P
Pooled funds - Security lending	4,098,912	Not Rated	

**Concentration of Credit Risk** - Through its investment policy, the City places a 5 percent limit on the amount the City may invest in any one issuer.

**Foreign Currency Risk** - Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value, as a result of changes in foreign currency exchange rates. The pension system restricts the amount of investments in foreign currency denominated investments to 5 percent of total pension system investments.

### **Note 3 - Deposits and Investments (Continued)**

The pension system includes exposure to the international asset class in order to increase diversification and reduce risk. The investments held by the Pension Fund are protected from foreign currency risk through the use of ADRs (American Depository Receipts).

**Retirement Investments Securities Lending Transactions** - The pension system has entered into securities lending transactions whereby loans of securities are made to broker-dealers and other entities for collateral with a simultaneous agreement to return the collateral for the same securities in the future. State statutes permit participation in securities lending transactions and the pension system has authorized the custodians of their securities to lend securities to broker-dealers and banks pursuant to a formal loan agreement. At June 30, 2005, the pension system has no credit risk exposure to the borrowers because the amounts the pension system owes the borrowers exceed the amount the borrowers owe the pension system.

During the year, security loans were made at the discretion of the pension system's custodial bank and United States currency was received as collateral. Borrowers were required to deliver collateral for each loan equal to but not less than 102 percent to 105 percent of the market value of the loaned securities. The pension system did not impose any restrictions during the past year on the amount of loans that the lending agents could make on their behalf. There were no failures by any borrowers to return loaned securities or pay distributions thereon. In addition, there were no losses during the past year resulting from default of the borrowers. Contracts with the lending agents require them to indemnify the pension system if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the system for income distributions by the securities' issuers while the securities are on loan.

All securities loans can be terminated on demand by either the pension system or the borrower. The cash collateral received on each loan was invested, together with the cash collateral of the other lenders in a pool. The average duration of such investment pools as of June 30, 2005 was 157 days. Their duration did not generally match the duration of the loans because the loans could be terminated on demand. The total amount of collateral held and the fair values of the underlying securities for the pension system as of June 30, 2005 were \$8,712,682 and \$8,509,238, respectively.

# City of Roseville, Michigan

## Notes to Financial Statements June 30, 2005

### Note 4 - Receivables

Receivables as of year end for the City's individual major funds and the nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Major Streets Fund	Local Streets Fund	Capital Projects Fund	Nonmajor and Other Funds	Total
Receivables:						
Taxes	\$ 384,577	\$ -	\$ -	\$ -	\$ 14,517	\$ 399,094
Special assessment	-	-	-	203,823	-	203,823
Intergovernmental	1,606,465	677,473	118,272	-	36,886	2,439,096
Interest and other	<u>773,595</u>	<u>139,918</u>	<u>10,856</u>	<u>47,813</u>	<u>39,493</u>	<u>1,011,675</u>
Net receivables	<u>\$ 2,764,637</u>	<u>\$ 817,391</u>	<u>\$ 129,128</u>	<u>\$ 251,636</u>	<u>\$ 90,896</u>	<u>\$ 4,053,688</u>

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	Unavailable
Delinquent property taxes	\$ 320,167
Special assessments	90,436
Grant payment and other federal source revenues received prior to meeting all eligibility requirements	42,625
Other	<u>144,224</u>
Total	<u>\$ 597,452</u>

# City of Roseville, Michigan

## Notes to Financial Statements June 30, 2005

### Note 5 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

	Balance July 1, 2004	Additions	Disposals and Adjustments	Balance June 30, 2005
<b>Governmental Activities</b>				
Capital assets not being depreciated -				
Land	\$ 31,323,494	\$ 40,042	\$ 24,089	\$ 31,339,447
Capital assets being depreciated:				
Roads and sidewalks	58,355,714	4,385,159	-	62,740,873
Buildings and building improvements	16,148,443	287,270	-	16,435,713
Other tools and equipment	11,087,531	925,642	390,744	11,622,429
Subtotal	85,591,688	5,598,071	390,744	90,799,015
Accumulated depreciation:				
Roads and sidewalks	29,235,476	1,129,499	-	30,364,975
Buildings and building improvements	5,166,560	418,172	-	5,584,732
Other tools and equipment	6,351,985	1,272,806	251,161	7,373,630
Subtotal	40,754,021	2,820,477	251,161	43,323,337
Net capital assets being depreciated	44,837,667	2,777,594	139,583	47,475,678
Net governmental capital assets	\$ 76,161,161	\$ 2,817,636	\$ 163,672	\$ 78,815,125

	Balance July 1, 2004	Contributed Assets	Additions	Disposals and Adjustments	Balance June 30, 2005
<b>Business-type Activities</b>					
Capital assets being depreciated:					
Water and sewer distribution systems	\$ 17,440,659	\$ -	\$ 269,357	\$ -	\$ 17,710,016
Buildings and building improvements	126,653	-	-	-	126,653
Other tools and equipment	1,217,814	1,519,079	133,600	-	2,870,493
Subtotal	18,785,126	1,519,079	402,957	-	20,707,162
Accumulated depreciation:					
Water and sewer distribution systems	10,968,396	-	269,755	-	11,238,151
Buildings and building improvements	112,522	-	1,087	-	113,609
Other tools and equipment	862,656	1,519,079	206,617	-	2,588,352
Subtotal	11,943,574	1,519,079	477,459	-	13,940,112
Net business-type capital assets	\$ 6,841,552	\$ -	\$ (74,502)	\$ -	\$ 6,767,050

# City of Roseville, Michigan

## Notes to Financial Statements June 30, 2005

### Note 5 - Capital Assets (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:

General government	\$ 299,931
Public safety	395,141
Public works	1,291,854
Recreation and culture	<u>833,551</u>

Total governmental activities	<u>\$ 2,820,477</u>
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Business-type activities	<u>\$ 477,459</u>
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**Construction Commitments** - The City has active construction projects at year end, including various major and local street projects administered by the Michigan Department of Transportation for \$81,680.

**Contributed Assets** - This amount represents meters that were originally purchased by system customers. The City has the responsibility of serving all meters and the asset is considered owned by the City. All meters were fully depreciated when donated back to the City.

### Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
<b>Due to/from Other Funds</b>		
General Fund	Major Streets Fund	\$ 262,314
	Local Streets Fund	324,472
	Other governmental funds	<u>51,736</u>
Total General Fund		638,522
Major Streets Fund	Capital Projects Fund	76,363
	Other governmental funds	<u>271,758</u>
Total Major Streets Fund		348,121



# City of Roseville, Michigan

## Notes to Financial Statements June 30, 2005

### Note 6 - Interfund Receivables, Payables, and Transfers (Continued)

Receivable Fund	Payable Fund	Amount
Local Streets Fund	Capital Projects Fund	\$ 3,343
	Other governmental funds	<u>453,124</u>
Total Local Streets Fund		456,467
Capital Projects Fund	Other governmental funds	179,140
Other governmental funds	Capital Projects Fund	<u>3,764</u>
Total governmental funds		<u>\$ 1,626,014</u>
Enterprise Funds	Other governmental funds	<u>\$ 77</u>

### Interfund Transfers

	Transfers Out				Total
	General Fund	Major Streets Fund	Local Streets Fund	Capital Projects Fund	
Transfers in:					
Major Streets Fund	\$ -	\$ -	\$ -	\$ 76,363	\$ 76,363
Local Streets Fund	50,000	549,169	-	3,343	602,512
Other governmental funds:					
General Debt Fund	62,704	-	295,669	3,764	362,137
Building Authority Debt Fund	<u>594,817</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>594,817</u>
Total	<u>\$ 707,521</u>	<u>\$ 549,169</u>	<u>\$ 295,669</u>	<u>\$ 83,470</u>	<u>\$ 1,635,829</u>

The transfers from the General Fund to the Local Streets Fund and from the Major Streets Fund to the Local Streets Fund are to help support local road projects. The transfers from the General Fund to the General Debt Fund and Building Authority Debt Fund are for loan/debt current year obligations. The transfer from the Local Streets Fund to the General Debt Fund is for Special Assessment Debt obligations during the current year. The transfers from the Capital Projects Fund to the Major Streets, Local Streets, and Debt Service Funds represent special assessment allocations.

# City of Roseville, Michigan

## Notes to Financial Statements June 30, 2005

### Note 7 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. County contractual agreements and installment purchase agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the City is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the district) are received.

Long-term obligation activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental Activities*</b>					
General obligation bonds:					
Unlimited Tax General Obligation Library Bonds	\$ 1,900,000	\$ -	\$ 115,000	\$ 1,785,000	\$ 120,000
1996 MVH Paving Bonds	555,000	-	270,000	285,000	285,000
Building authority bonds:					
1992 Building Authority Bonds - Recreation Center	210,000	-	60,000	150,000	75,000
Building Authority Refunding Bonds - Series 1993	675,000	-	175,000	500,000	175,000
Building Authority Police/Court/Fire Station Renovation Bonds - Series 1999	5,675,000	-	225,000	5,450,000	250,000
County drain contract obligation:					
Lake St. Clair Water Initiative Drainage District - Series A	2,078,154	-	42,890	2,035,264	43,120
Lake St. Clair Water Initiative Drainage District - Series B	2,028,286	-	2,028,286	-	-
Lake St. Clair Water Initiative Drainage District - SRF Project 5186-01	4,247,137	-	176,385	4,070,752	181,730
Lake St. Clair Water Initiative Drainage District - SRF Project 5186-02	2,960,600	-	147,025	2,813,575	125,496
Lake St. Clair Water Initiative Drainage District - SRF Project 5186-03	572,910	-	28,347	544,563	24,651
Lake St. Clair Water Initiative Drainage District - SRF Project 5186-05	290,954	52,344	14,084	329,214	14,084
Lake St. Clair Water Initiative Drainage District - 2004 Series A	1,094,500	-	-	1,094,500	26,268
Installment purchase agreement - Installment loan - Computer software	118,256	-	57,838	60,418	60,418
Lake St. Clair Water Initiative County Drain Obligation	-	731,665	-	731,665	-
Tax tribunal provision (Note 10)	639,476	59,768	-	699,244	-
Total debt obligations	23,045,273	843,777	3,339,855	20,549,195	1,380,767
Compensated absences	2,945,940	1,302,641	1,349,843	2,898,738	1,289,473
Total governmental activities	<u>\$ 25,991,213</u>	<u>\$ 2,146,418</u>	<u>\$ 4,689,698</u>	<u>\$ 23,447,933</u>	<u>\$ 2,670,240</u>
<b>Business-type Activities - Compensated absences</b>	<u>\$ 256,098</u>	<u>\$ 63,464</u>	<u>\$ 111,334</u>	<u>\$ 208,228</u>	<u>\$ 78,307</u>

\* The original issue amount, principal maturing ranges, maturity date, and interest range for each issuance is located in the other financial and supplemental section.

# City of Roseville, Michigan

## Notes to Financial Statements June 30, 2005

### Note 7 - Long-term Debt (Continued)

Annual debt service requirements to maturity for all debt, except for compensated absences, Lake St. Clair Water Initiative County Drain Obligation, and tax tribunal provision, are as follows:

	Governmental Activities		
	Principal	Interest	Total
2006	\$ 1,380,767	\$ 757,363	\$ 2,138,130
2007	1,081,237	694,973	1,776,210
2008	996,031	648,834	1,644,865
2009	887,987	607,311	1,495,298
2010	936,757	571,525	1,508,282
2011-2015	5,237,138	2,252,828	7,489,966
2016-2020	5,317,760	1,171,285	6,489,045
2021-2025	2,309,689	404,898	2,714,587
2026-2030	970,920	128,479	1,099,399
Total	<u>\$ 19,118,286</u>	<u>\$ 7,237,496</u>	<u>\$ 26,355,782</u>

### Note 8 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for property loss, torts, errors and omissions, and workers' compensation claims; the City is partially uninsured for employee medical benefit claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Under the employee medical benefit plan, the City is liable for claims up to a maximum amount of \$175,000 per employee and for the aggregate total of all employees of approximately \$8,363,470 annually. The City has purchased stop-loss insurance coverage of \$1,000,000 for aggregate claims in excess of \$8,363,470.

### Note 8 - Risk Management (Continued)

The City estimates the liability for employee medical benefit claims that have been incurred through the end of the fiscal year, including claims that have been reported as well as those that have not yet been reported. The estimates are recorded in the Self-insurance Internal Service Fund. Changes in the estimated liability for the past two fiscal years were as follows:

	2005	2004
Estimated liability - Beginning of year	\$ 683,339	\$ 643,270
Estimated claims incurred including changes in estimates	7,193,866	6,077,625
Claim payments	<u>(7,196,902)</u>	<u>(6,037,556)</u>
Estimated liability - End of year	<u>\$ 680,303</u>	<u>\$ 683,339</u>

### Note 9 - Defined Benefit Pension Plan and Postretirement Benefits

**Plan Description** - The City of Roseville Employees' Pension Trust Fund System is a single-employer defined benefit pension plan that is administered by the City of Roseville, Michigan; this plan covers substantially all full-time employees of the City. The system provides retirement, disability, death, and health benefits to plan members and their beneficiaries.

At June 30, 2004, the date of the most recent actuarial valuation, membership consisted of 270 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them and 318 current active employees. The plan does not issue a separate financial report.

**Contributions** - Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Please refer to Note 1 for further significant accounting policies.

### Note 9 - Defined Benefit Pension Plan and Postretirement Benefits (Continued)

**Funding Policy** - The obligation to contribute to and maintain the system for employees was established by negotiation with the City's competitive bargaining units and requires a contribution from the employees of 6.5 percent and 7.0 percent of gross wages for general, supervisor, and clerical members and police and fire members, respectively. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed through investment earnings.

**Annual Pension Costs** - For the year ended June 30, 2005, the City's annual pension cost of \$3,295,300 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at June 30, 2003 using the individual entry age cost method. Significant actuarial assumptions used include: (i) a 7.5 investment rate of return, (ii) projected salary increases of 5.0 percent per year, and (iii) 0.0 percent to 3.8 percent per year cost of living adjustments. Both (i) and (ii) include an inflation component of 5.0 percent. The actuarial value of the assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percent of payroll on a closed basis. The remaining amortization period is 30 years.

**Reserves** - As of June 30, 2004, the plan's legally required reserves have been fully funded as follows:

Reserves for employees' contributions	\$22,362,570
Reserve for retired benefit payments	69,354,642

The following trend information includes only pension-related activity (assets, liabilities, and contributions related to health care have been excluded):

	Year Ended June 30		
	2003	2004	2005
Annual pension costs (APC)	\$ 2,449,110	\$ 2,813,719	\$ 3,295,300
Percentage of APC contributed	100%	100%	100%
Net pension obligation	None	None	None

# City of Roseville, Michigan

## Notes to Financial Statements June 30, 2005

### Note 9 - Defined Benefit Pension Plan and Postretirement Benefits (Continued)

	Actuarial Valuation Date		
	2002	2003	2004
	(Dollar Amounts in Thousands)		
Actuarial value of assets	\$ 112,427	\$ 109,779	\$ 111,328
Actuarial accrued liability (AAL)	\$ 117,182	\$ 122,849	\$ 131,171
Underfunded (overfunded) AAL (UAAL, OAAL)	\$ 4,755	\$ 13,070	\$ 19,843
Funded ratio (percentage)	95.9%	89.4%	84.9%
Covered payroll	\$ 16,005	\$ 16,818	\$ 18,193
UAAL, OAAL as a percentage of covered payroll	30%	77.7%	109.1%

### Note 10 - Personal Property Tax Multiplier

In November 1999, the State Tax Commission approved revised personal property tax tables for utilities. The revised tables affected taxes collected from 1997 to the present as a result of local units of government continuing to use the personal property tax tables in effect prior to 1999. The issue was the subject of a lawsuit brought on by several units of government against the State Tax Commission challenging the constitutionality of the new utility personal property tax tables. In April 2002, the revised tables were upheld by the court.

During 2004, the tax tables were again upheld on appeal. The amounts paid to the City in excess of the approved amounts using the new tables would potentially need to be refunded to the utility companies. This could result in refunds, including interest, of approximately \$680,000 from the General Fund, \$7,000 from the Debt Service Fund, and \$12,000 from the Chapter 20 Debt Fund. Appeals are still being undertaken by taxing authorities and the matter is not expected to be settled in the next fiscal year. Therefore, the potential refund related to the governmental funds has been recorded as a long-term liability on the government-wide statement of net assets at approximately \$699,000.

### Note 11 - Postemployment Benefits

The City provides health care benefits to all full-time employees upon retirement, in accordance with labor contracts. Currently, 254 retirees are eligible for postemployment health benefits. The City includes pre-Medicare retirees and their dependents in its insured health care plan, with no contribution required by the participant. The City purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for postemployment health care benefits are recognized as the insurance premiums become due. For the fiscal year ended June 30, 2005, the City made payments for postemployment health benefit premiums of \$2,954,749. Of the \$2,954,749, \$1,711,949 was paid out of the Employees' Pension Trust Fund System and \$1,242,800 was paid by the General Fund on behalf of the Employees' Pension Trust Fund System.

**Upcoming Reporting Change** - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2009.

### Note 12 - Designated Fund Balance

Unreserved fund balances have been designated for the following purposes:

	<u>General Fund</u>
Capital improvements	\$ 10,000
Subsequent years' expenditures	3,720,148
Compensated absences	1,252,761
Working capital	<u>1,606,465</u>
Total	<u>\$ 6,589,374</u>

### **Note 13 - Joint Ventures**

The City is a member of the Southeast Macomb Sanitary District, which provides sewage disposal to participating municipalities in Macomb County, Michigan. Other members include the cities of St. Clair Shores and Eastpointe, Michigan. The City appoints one member to the joint venture's governing board, who then approves the annual budgets. The City's equity interest at June 30, 2004 in the Southeast Macomb Sanitary District of \$5,667,262 is recorded within the governmental activities column of the statement of net assets. Complete financial statements for the South Macomb Disposal Authority can be obtained from their administrative offices at 20001 Pleasant Avenue, St. Clair Shores, Michigan 48080. The City is not aware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future.

The City is a member of the South Macomb Disposal Authority, which provides refuse disposal services to participating municipalities in Macomb County, Michigan. Other members include the cities of Center Line, Roseville, Eastpointe, and Warren, Michigan. The City appoints one member to the joint venture's governing board, who then approves the annual budgets. The City's equity interest in the Authority's operating reserve of \$464,395 is recorded within the governmental activities column of the statement of net assets. As of June 30, 2004, the Authority has reserves totaling approximately \$7,500,000 that have been designated for self-insurance activities; the participating community's equity interest in the insurance reserve is not determinable. Complete financial statements for the Southeast Macomb Sanitary District and the South Macomb Disposal Authority can be obtained from their administrative offices at 20001 Pleasant Avenue, St. Clair Shores, Michigan 48080. The City is not aware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future.



## **Required Supplemental Information**

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# City of Roseville, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Fund Balance - Beginning of year</b>	\$ 13,787,707	\$ 13,787,707	\$ 13,787,707	\$ -
<b>Resources (Inflows)</b>				
Property taxes	20,131,246	20,316,196	20,316,805	609.00
Fees and fines	2,817,000	2,242,404	2,266,492	24,088
Licenses and permits	708,880	456,406	459,436	3,030
Federal sources	-	184,214	184,214	-
State sources	4,850,000	5,172,093	5,172,093	-
Charges for services	480,154	293,150	293,150	-
Investment income	300,000	535,948	529,393	(6,555)
Other	3,875,725	4,540,913	4,553,413	12,500
Total resources (inflows)	33,163,005	33,741,324	33,774,996	33,672
<b>Charges to Appropriations (Outflows)</b>				
General government:				
39th District Court	2,174,317	2,191,175	2,191,174	1
City manager	301,333	198,552	198,554	(2)
City assessor	482,998	448,605	448,605	-
City attorney	323,000	299,142	299,142	-
City clerk	561,693	544,937	544,937	-
Controller	355,519	249,463	249,463	-
Personnel	122,480	122,836	122,836	-
Purchasing	279,169	251,480	251,481	(1)
City treasurer	397,731	284,277	284,278	(1)
Building maintenance	904,593	892,217	892,218	(1)
Information systems	466,427	421,902	421,901	1
Retirement	85,582	-	-	-
Other general government	2,891,541	3,671,925	3,671,921	4
Public safety:				
Police	11,118,921	10,951,785	11,027,050	(75,265)
Fire	5,011,237	5,312,636	5,312,635	1
Building inspector	909,791	756,859	756,860	(1)
Public works:				
Highway department	1,528,910	1,734,027	1,746,026	(11,999)
Street lighting	775,000	735,155	735,155	-
Engineering	274,193	176,015	176,016	(1)
Sanitation	2,320,202	2,115,860	2,115,860	-
Community services:				
Recreation	1,419,962	1,387,152	1,387,154	(2)
Senior activities	170,409	170,409	170,305	104
Recreation - Buildings and grounds	-	23	23	-
Library	1,208,495	1,164,239	1,164,239	-
Transfers to other funds	657,000	707,521	707,521	-
Total charges to appropriations (outflows)	34,740,503	34,788,192	34,875,354	(87,162)
<b>Fund Balance - End of year</b>	<b>\$ 12,210,209</b>	<b>\$ 12,740,839</b>	<b>\$ 12,687,349</b>	<b>\$ (53,490)</b>

# City of Roseville, Michigan

## Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds - Major Streets Fund Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Fund Balance - Beginning of year</b>	\$ 1,047,397	\$ 1,047,397	\$ 1,047,397	\$ -
<b>Resources (Inflows)</b>				
State-shared revenue	2,175,000	2,769,259	2,769,261	2
Investment income	47,000	36,587	36,587	-
Transfer from other funds	43,000	76,363	76,363	-
Total resources (inflows)	2,265,000	2,882,209	2,882,211	2
<b>Charges to Appropriations (Outflows)</b>				
General government - Administration	200,000	200,000	200,000	-
Public works:				
State trunkline maintenance	200,000	241,481	241,481	-
Routine street maintenance	425,000	607,551	607,552	(1)
Traffic services - Signs	40,000	2,756	2,756	-
Snow and ice control	45,000	44,031	44,031	-
Construction and development	1,153,000	798,755	814,068	(15,313)
Transfers to other funds	900,000	1,300,000	549,169	750,831
Total charges to appropriations (outflows)	2,963,000	3,194,574	2,459,057	735,517
<b>Fund Balance - End of year</b>	<b>\$ 349,397</b>	<b>\$ 735,032</b>	<b>\$ 1,470,551</b>	<b>\$ 735,519</b>

# City of Roseville, Michigan

## Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds - Local Streets Fund Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Fund Balance - Beginning of year</b>	\$ 1,614,838	\$ 1,614,838	\$ 1,614,838	\$ -
<b>Resources (Inflows)</b>				
State-shared revenue	675,000	737,702	737,702	-
Investment income	6,500	2,469	2,469	-
Transfer from other funds	904,500	1,353,343	602,512	(750,831)
Total resources (inflows)	1,586,000	2,093,514	1,342,683	(750,831)
<b>Charges to Appropriations (Outflows)</b>				
General government - Administration	70,000	70,000	70,000	-
Public works:				
Routine street maintenance	800,000	1,034,351	1,034,351	-
Traffic services - Signs	100,000	74,773	74,773	-
Snow and ice control	125,000	154,978	154,978	-
Construction and development	1,507,280	1,489,633	1,075,859	413,774
Transfers to other funds	296,000	295,669	295,669	-
Total charges to appropriations (outflows)	2,898,280	3,119,404	2,705,630	413,774
<b>Fund Balance - End of year</b>	<b>\$ 302,558</b>	<b>\$ 588,948</b>	<b>\$ 251,891</b>	<b>\$ (337,057)</b>

# City of Roseville, Michigan

## Pension System Schedule of Funding Progress

**June 30, 2005**

(dollar amounts in thousands)

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
6/30/95	\$ 70,758	\$ 85,608	\$ 14,850	82.7	\$ 12,044	123.3
6/30/96	78,957	89,510	10,553	88.2	13,064	80.8
6/30/97	86,032	92,789	6,757	92.7	13,321	50.7
6/30/98	97,090	98,592	1,502	98.5	14,176	10.6
6/30/99	106,123	103,097	(3,026)	102.9	14,481	-
6/30/00	111,153	108,780	(2,373)	102.2	14,977	-
6/30/01	115,009	114,218	(791)	100.7	15,372	-
6/30/02	112,427	117,182	4,755	95.9	16,005	29.7
6/30/03	109,779	122,849	13,070	89.4	16,818	77.7
6/30/04	111,328	131,171	19,843	84.9	18,193	109.1

The schedule of employer contributions is as follows:

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution*	Percentage Contributed
6/30/00	6/30/98	\$ 2,291,128	100.0
6/30/01	6/30/99	2,509,912	100.0
6/30/02	6/30/00	2,208,341	100.0
6/30/03	6/30/01	2,449,110	100.0
6/30/04	6/30/02	2,813,719	100.0
6/30/05	6/30/03	3,295,300	100.0

\* The required contribution is expressed to the City as a percentage of payroll.

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2004, the latest actuarial valuation, follows:

Actuarial cost method	Entry age
Amortization method	Level percent of payroll
Amortization period (perpetual)	30 years
Asset valuation method	4-year smoothed market
Actuarial assumptions:	
Investment rate of return	7.50%
Projected salary increases*	5.0% - 8.8%
*Includes inflation at	5.0%
Cost of living adjustments	None

# City of Roseville, Michigan

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## Note to Required Supplemental Information June 30, 2005

### Note - Budgetary Information

The City is legally subject to the budgetary control requirements of State of Michigan P.A. 621 of 1978 (the Uniform Budgeting Act). The following is a summary of the requirements of this Act according to the State Treasurer's *Bulletin for Audits of Local Units of Government in Michigan*, dated April 1982 as amended by P.A. 493 of 2000:

- a. Budgets must be adopted for the General Fund and Special Revenue Funds.
- b. Budgeted expenditures cannot exceed budgeted revenues and fund balance.
- c. The budgets must be amended when necessary.
- d. Public hearings must be held before budget adoptions.
- e. Expenditures cannot exceed budget appropriations.
- f. Expenditures must be authorized by a budget before being incurred.

The City adopts its budget by activity, which is in accordance with the State's legal requirements. An activity is the level that aggregates budgetary line items by departmental responsibility. This then represents the level of classification detail at which expenditures may not legally exceed appropriations. The level of detail presented in the required supplemental information budgetary comparison schedules for the major governmental funds is a summarization of the activity basis budget. Copies of the activity basis budgets for all budgeted funds are available at the office of the city clerk.

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- Prior to February 1, all departments and entities within the City submit to the City manager their proposed operating budget for the fiscal year commencing the following July 1.
- On the second Tuesday in April, the City manager submits to the City Council a proposed balanced operating budget for the next fiscal year. The operating budget includes proposed expenditures and the means of financing them.
- A public hearing is conducted to obtain taxpayer comments.
- Prior to the first Monday in May, the budget is legally adopted by the City Council through adoption of the appropriation ordinance.

# City of Roseville, Michigan

## Note to Required Supplemental Information June 30, 2005

### Note - Budgetary Information (Continued)

- The city manager is authorized to transfer budgeted amounts within budgetary activities; however, any revisions that alter the total expenditures of any budgetary activity must be approved by the City Council.

Budgeted amounts of the revenues and expenditures are presented for the General and Special Revenue Funds. Individual amendments were not material in relation to the original appropriations that were adopted. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. During the current year, the budget was amended in a legally permissible manner.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America with the exception that operating transfers have been included in the "revenues" and "expenditures" categories rather than as "other financing sources (uses)", reimbursements from other funds have been included in "other revenue", rather than as a reduction of expenditures, and proceeds from the sale of assets have been included in the revenue category rather than as "other financing sources (uses)"

Following is a reconciliation of the budget statement of the General Fund and other major funds to the operating statement

	Budget Statement	Reimbursements	Proceeds from the Sale of Assets	Operating Transfers	Operating Statement
General Fund - Total revenue	\$ 33,774,996	\$ (2,411,157)	\$ (108,066)	\$ -	\$ 31,255,773
General Fund - Total expenditures	34,875,354	(2,411,157)	-	(707,521)	31,756,676
Major Streets Fund - Total revenue	2,882,211	-	-	(76,363)	2,805,848
Major Streets Fund - Total expenditures	2,459,057	-	-	(549,169)	1,909,888
Local Streets Fund - Total revenue	1,342,683	-	-	(602,512)	740,171
Local Streets Fund - Total expenditures	2,705,630	-	-	(295,669)	2,409,961

**Excess of Expenditures Over Appropriations in Budgeted Funds** - During the year, the City incurred expenditures that were in excess of the amounts budgeted in the General Fund and Major Streets Fund as follows:

	Amended Budget	Actual
General Fund - Other general government	\$ 2,921,925	\$ 3,017,183
General Fund - Police	10,951,785	11,027,050
General Fund - Highway department	1,734,027	1,746,026
Major Streets Fund - Construction and development	798,755	814,068

# City of Roseville, Michigan

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## **Note to Required Supplemental Information June 30, 2005**

### **Note - Budgetary Information (Continued)**

The unfavorable police expenditure variance in the General Fund was caused mainly by additional expenditures related to a grant that the department received. These costs were reimbursed by the grant money. This reimbursement is shown within revenue.

The unfavorable highway department expenditure variance in the General Fund was caused by the cost of vehicles purchased being more than anticipated.

The unfavorable construction and development expenditure variance in the Major Streets Fund was mainly due to the City ensuring in the current year that costs of any project that were related to the roads were properly allocated to the street funds.



## **Other Financial and Supplemental Information**

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# City of Roseville, Michigan

		Special Revenue Funds	
		Community Development Block Grant	Drug Law Enforcement
<b>Assets</b>			
Cash and investments		\$ 113,612	\$ 708,373
Receivables:			
Taxes		-	-
Other		265	26,467
Due from other funds		-	-
Due from other governmental units		36,886	-
Total assets		<u><u>\$ 150,763</u></u>	<u><u>\$ 734,840</u></u>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Accounts payable		\$ 97,278	\$ -
Due to other funds		51,513	-
Other liabilities		1,971	-
Deferred revenue		1	23,100
Total liabilities		150,763	23,100
<b>Fund Balances</b>			
Reserved		-	711,740
Unreserved		-	-
Total fund balances		-	711,740
Total liabilities and fund balances		<u><u>\$ 150,763</u></u>	<u><u>\$ 734,840</u></u>

**Other Financial and Supplemental Information**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**June 30, 2005**

Debt Service Funds			Total Nonmajor Governmental Funds
Building Authority	General Debt	Chapter 20 Drain	
\$ 11,013	\$ 803,385	\$ 1,004,870	\$ 2,641,253
-	6,595	7,922	14,517
-	-	12,761	39,493
-	3,764	-	3,764
-	-	-	36,886
<u>\$ 11,013</u>	<u>\$ 813,744</u>	<u>\$ 1,025,553</u>	<u>\$ 2,735,913</u>
\$ -	\$ -	\$ 2,200	\$ 99,478
-	-	464,855	516,368
-	-	-	1,971
-	5,318	18,548	46,967
-	5,318	485,603	664,784
-	-	-	711,740
<u>11,013</u>	<u>808,426</u>	<u>539,950</u>	<u>1,359,389</u>
<u>11,013</u>	<u>808,426</u>	<u>539,950</u>	<u>2,071,129</u>
<u>\$ 11,013</u>	<u>\$ 813,744</u>	<u>\$ 1,025,553</u>	<u>\$ 2,735,913</u>

# City of Roseville, Michigan

	Special Revenue Funds	
	Community Development Block Grant	Drug Law Enforcement
<b>Revenue</b>		
Property taxes	\$ -	\$ -
Federal sources	606,826	12,771
Local sources	-	-
Investment income	-	12,310
Other	332,557	77,279
Total revenue	939,383	102,360
<b>Expenditures - Current</b>		
General government	131,880	-
Public safety	-	76,804
Public works	217,919	-
Community services	589,584	-
Principal	-	-
Interest	-	-
Other charges	-	-
Total expenditures	939,383	76,804
<b>Excess of Revenue Over (Under) Expenditures</b>	-	25,556
<b>Other Financing Sources - Transfers in</b>	-	-
<b>Change in Fund Balances</b>	-	25,556
<b>Fund Balances - Beginning of year</b>	-	686,184
<b>Fund Balances - End of year</b>	<u>\$ -</u>	<u>\$ 711,740</u>

**Other Financial and Supplemental Information**  
**Combining Statement of Revenue, Expenditures, and Changes**  
**in Fund Balances - Nonmajor Governmental Funds**  
**Year Ended June 30, 2005**

Debt Service Funds			Total Nonmajor Governmental Funds
Building Authority	General Debt	Chapter 20 Drain	
\$ -	\$ 200,375	\$ 359,921	\$ 560,296
-	-	-	619,597
209,863	-	-	209,863
479	15,374	40,571	68,734
-	-	-	409,836
210,342	215,749	400,492	1,868,326
-	-	-	131,880
-	-	-	76,804
-	-	-	217,919
-	-	-	589,584
460,000	442,838	408,731	1,311,569
344,679	123,645	311,852	780,176
-	12,696	710,180	722,876
804,679	579,179	1,430,763	3,830,808
(594,337)	(363,430)	(1,030,271)	(1,962,482)
594,816	362,138	-	956,954
479	(1,292)	(1,030,271)	(1,005,528)
10,534	809,718	1,570,221	3,076,657
<u>\$ 11,013</u>	<u>\$ 808,426</u>	<u>\$ 539,950</u>	<u>\$ 2,071,129</u>

# City of Roseville, Michigan

## Other Financial and Supplemental Information Combining Statement of Assets and Liabilities Agency Funds June 30, 2005

	Agency Funds				Totals
	Tax Collections	Miscellaneous Agency	P.A.I.R.	District Court	
<b>Assets - Cash and investments</b>	<b>\$ 408</b>	<b>\$ 63,504</b>	<b>\$ 8,172</b>	<b>\$ 187,231</b>	<b>\$ 259,315</b>
<b>Liabilities</b>					
<b>Liabilities</b>					
Accounts payable	\$ -	\$ 8,092	\$ 79	\$ 1,170	\$ 9,341
Accrued and other liabilities	-	55,412	8,093	186,061	249,566
Due to other governmental units	408	-	-	-	408
Total liabilities	<b>\$ 408</b>	<b>\$ 63,504</b>	<b>\$ 8,172</b>	<b>\$ 187,231</b>	<b>\$ 259,315</b>

# City of Roseville, Michigan

## Schedule of Indebtedness June 30, 2005

Description	Interest Rate (Percent)	Date of Maturity	Amount of Annual Maturity	Principal Outstanding	
				June 30	
				2005	2004
<b>General Obligation Bonds</b>					
Unlimited Tax General Obligation Library Bonds					
Date of issue - November 1, 1995					
Amount of issue - \$2,715,000					
	4.800	11/01/04	\$ 115,000	\$ -	\$ 115,000
	4.800	11/01/05	120,000	120,000	120,000
	4.800	11/01/06	130,000	130,000	130,000
	4.900	11/01/07	135,000	135,000	135,000
	5.000	11/01/08	140,000	140,000	140,000
	5.050	11/01/09	150,000	150,000	150,000
	5.100	11/01/10	160,000	160,000	160,000
	5.100	11/01/11	170,000	170,000	170,000
	5.100	11/01/12	180,000	180,000	180,000
	5.125	11/01/13	190,000	190,000	190,000
	5.125	11/01/14	200,000	200,000	200,000
	5.125	11/01/15	210,000	210,000	210,000
				1,785,000	1,900,000
1996 MVH Paving Bonds					
Date of issue - August 28, 1996					
Amount of issue - \$2,000,000					
	4.60	05/01/05	270,000	-	270,000
	4.60	05/01/06	285,000	285,000	285,000
				285,000	555,000
Total general obligation bonds				\$ 2,070,000	\$ 2,455,000

# City of Roseville, Michigan

## Schedule of Indebtedness (Continued) June 30, 2005

Description	Interest Rate (Percent)	Date of Maturity	Amount of Annual Maturity	Principal Outstanding	
				June 30	
				2005	2004

### Building Authority Bonds

#### 1992 Building Authority Bonds - Recreation Center

Date of issue - August 1, 1992

Amount of issue - \$700,000

6.10	05/01/05	\$	60,000	\$	-	\$	60,000
6.15	05/01/06		75,000		75,000		75,000
6.20	05/01/07		75,000		75,000		75,000
					150,000		210,000

#### Building Authority Refunding Bonds - Series 1993

Date of issue - March 31, 1993

Amount of issue - \$2,450,000

4.75	05/01/05		175,000		-		175,000
5.25	05/01/06		175,000		175,000		175,000
5.25	05/01/07		175,000		175,000		175,000
5.25	05/01/08		150,000		150,000		150,000
					500,000		675,000



# City of Roseville, Michigan

## Schedule of Indebtedness (Continued) June 30, 2005

Description	Interest Rate (Percent)	Date of Maturity	Amount of Annual Maturity	Principal Outstanding	
				June 30	
				2005	2004
<b>Building Authority Bonds</b> (Continued)					
Building Authority Police - Court - Firestation Renovation Bonds - Series 1999					
Date of issue - November 1, 1999					
Amount of issue - \$6,500,000					
	7.00	10/01/04	\$ 225,000	\$ -	\$ 225,000
	6.60	10/01/05	250,000	250,000	250,000
	5.00	10/01/06	275,000	275,000	275,000
	5.00	10/01/07	275,000	275,000	275,000
	5.00	10/01/08	300,000	300,000	300,000
	5.00	10/01/09	325,000	325,000	325,000
	5.00	10/01/10	350,000	350,000	350,000
	5.10	10/01/11	350,000	350,000	350,000
	5.10	10/01/12	375,000	375,000	375,000
	5.20	10/01/13	375,000	375,000	375,000
	5.20	10/01/14	375,000	375,000	375,000
	5.38	10/01/15	400,000	400,000	400,000
	5.38	10/01/16	400,000	400,000	400,000
	5.38	10/01/17	425,000	425,000	425,000
	5.50	10/01/18	475,000	475,000	475,000
	5.55	10/01/19	500,000	500,000	500,000
				5,450,000	5,675,000
Total Building Authority bonds				\$ 6,100,000	\$ 6,560,000

# City of Roseville, Michigan

## Schedule of Indebtedness (Continued) June 30, 2005

Description	Interest Rate (Percent)	Date of Maturity	Amount of Annual Maturity	Principal Outstanding	
				June 30	
				2005	2004
<b>County Drain Contract Obligations</b>					
Lake St. Clair Water Initiative Drainage District - Series A					
Date of issue - January 1, 2001					
Amount of issue - \$2,155,842					
	4.30	10/01/04	\$ 41,002	\$ -	\$ 41,002
	4.30	10/01/05	43,120	43,120	43,160
	4.30	10/01/06	45,276	45,276	45,318
	4.30	10/01/07	47,432	47,432	47,476
	4.30	10/01/08	49,588	49,588	49,634
	4.30	10/01/09	51,744	51,744	51,792
	4.30	10/01/10	53,900	53,900	53,950
	4.30	10/01/11	56,056	56,056	56,108
	4.30	10/01/12	59,290	59,290	59,345
	4.30	10/01/13	61,446	61,446	61,503
	4.30	10/01/14	64,680	64,680	64,740
	4.30	10/01/15	67,914	67,914	67,977
	4.30	10/01/16	71,148	71,148	71,214
	4.30	10/01/17	75,460	75,460	75,530
	4.30	10/01/18	79,772	79,772	79,846
	4.30	10/01/19	83,006	83,006	83,083
	4.30	10/01/20	87,318	87,318	87,399
	4.30	10/01/21	92,708	92,708	92,794
	4.30	10/01/22	97,020	97,020	97,110
	4.30	10/01/23	102,410	102,410	102,505
	4.30	10/01/24	108,878	108,878	108,979
	4.30	10/01/25	114,268	114,268	114,374
	4.30	10/01/26	120,736	120,736	120,848
	4.30	10/01/27	127,204	127,204	127,322
	4.30	10/01/28	133,672	133,672	133,796
	4.30	10/01/29	141,218	141,218	141,349
				2,035,264	2,078,154

# City of Roseville, Michigan

## Schedule of Indebtedness (Continued) June 30, 2005

Description	Interest Rate (Percent)	Date of Maturity	Amount of Annual Maturity	Principal Outstanding	
				June 30 2005	2004

### County Drain Contract Obligations (Continued)

Lake St. Clair Water Initiative Drainage District - Series A

Date of issue - April 1, 2001

City's portion of issuance - \$2,028,286

4.30	10/01/04	\$	2,028,286	\$	-	\$	2,028,286
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Lake St. Clair Water Initiative Drain Drainage District - SRF Project 5186-01

Date of issue - December 20, 2000

City's portion of issuance - \$4,419,246

2.50	10/01/04	176,385	-	176,385
2.50	10/01/05	181,730	181,730	181,730
2.50	10/01/06	186,006	186,006	186,006
2.50	10/01/07	190,282	190,282	190,282
2.50	10/01/08	195,627	195,627	195,627
2.50	10/01/09	199,903	199,903	199,903
2.50	10/01/10	205,248	205,248	205,248
2.50	10/01/11	210,593	210,593	210,593
2.50	10/01/12	215,938	215,938	215,938
2.50	10/01/13	221,283	221,283	221,283
2.50	10/01/14	226,628	226,628	226,628
2.50	10/01/15	233,042	233,042	233,042
2.50	10/01/16	238,387	238,387	238,387
2.50	10/01/17	244,801	244,801	244,801
2.50	10/01/18	251,215	251,215	251,215
2.50	10/01/19	257,629	257,629	257,629
2.50	10/01/20	264,043	264,043	264,043
2.50	10/01/21	270,457	270,457	270,457
2.50	10/01/22	277,940	277,940	277,940
			4,070,752	4,247,137

# City of Roseville, Michigan

## Schedule of Indebtedness (Continued) June 30, 2005

Description	Interest Rate (Percent)	Date of Maturity	Amount of Annual Maturity	Principal Outstanding	
				June 30	
				2005	2004
<b>County Drain Contract Obligations</b> (Continued)					
Lake St. Clair Water Initiative Drain Drainage District - SRF Project 5186-02					
Date of issue - December 20, 2001					
City's portion of issuance - \$3,080,380					
	2.50	10/01/04	\$ 123,170	\$ -	\$ 123,170
	2.50	10/01/05	125,496	125,496	126,560
	2.50	10/01/06	128,857	128,857	129,950
	2.50	10/01/07	131,099	131,099	132,210
	2.50	10/01/08	134,460	134,460	135,600
	2.50	10/01/09	137,822	137,822	138,990
	2.50	10/01/10	142,304	142,304	143,510
	2.50	10/01/11	145,665	145,665	146,900
	2.50	10/01/12	149,027	149,027	150,290
	2.50	10/01/13	153,509	153,509	154,810
	2.50	10/01/14	156,870	156,870	158,200
	2.50	10/01/15	161,352	161,352	162,720
	2.50	10/01/16	164,714	164,714	166,110
	2.50	10/01/17	169,195	169,195	170,630
	2.50	10/01/18	173,677	173,677	175,150
	2.50	10/01/19	178,159	178,159	179,670
	2.50	10/01/20	182,641	182,641	184,190
	2.50	10/01/21	187,123	187,123	188,710
	2.50	10/01/22	191,605	191,605	193,230
				2,813,575	2,960,600

# City of Roseville, Michigan

## Schedule of Indebtedness (Continued) June 30, 2005

Description	Interest Rate (Percent)	Date of Maturity	Amount of Annual Maturity	Principal Outstanding	
				June 30	
				2005	2004
<b>County Drain Contract Obligations</b> (Continued)					
Lake St. Clair Water Initiative Drain Drainage District - SRF Project 5186-03					
Date of issue - December 20, 2001					
City's portion of issuance - \$596,640					
	2.50	10/01/04	\$ 23,730	\$ -	\$ 23,730
	2.50	10/01/05	24,651	24,651	24,860
	2.50	10/01/06	24,651	24,651	24,860
	2.50	10/01/07	25,772	25,772	25,990
	2.50	10/01/08	25,772	25,772	25,990
	2.50	10/01/09	26,892	26,892	27,120
	2.50	10/01/10	28,013	28,013	28,250
	2.50	10/01/11	28,013	28,013	28,250
	2.50	10/01/12	29,133	29,133	29,380
	2.50	10/01/13	29,133	29,133	29,380
	2.50	10/01/14	30,253	30,253	30,510
	2.50	10/01/15	31,374	31,374	31,640
	2.50	10/01/16	31,374	31,374	31,640
	2.50	10/01/17	32,494	32,494	32,770
	2.50	10/01/18	33,615	33,615	33,900
	2.50	10/01/19	34,735	34,735	35,030
	2.50	10/01/20	35,856	35,856	36,160
	2.50	10/01/21	35,856	35,856	36,160
	2.50	10/01/22	36,976	36,976	37,290
				544,563	572,910

# City of Roseville, Michigan

## Schedule of Indebtedness (Continued) June 30, 2005

Description	Interest Rate (Percent)	Date of Maturity	Amount of Annual Maturity	Principal Outstanding	
				June 30	
				2005	2004
<b>County Drain Contract Obligations</b> (Continued)					
Lake St. Clair Water Initiative Drain Drainage District - SRF Project 5186-05					
Date of issue - June 26, 2003					
City's portion of issuance - \$343,298					
	2.50	10/01/04	\$ 14,084	\$ -	\$ 14,084
	2.50	10/01/05	14,084	14,084	14,084
	2.50	10/01/06	14,084	14,084	14,084
	2.50	10/01/07	14,084	14,084	14,084
	2.50	10/01/08	14,084	14,084	14,084
	2.50	10/01/09	15,845	15,845	15,845
	2.50	10/01/10	15,845	15,845	15,845
	2.50	10/01/11	15,845	15,845	15,845
	2.50	10/01/12	15,845	15,845	15,845
	2.50	10/01/13	15,845	15,845	15,845
	2.50	10/01/14	17,605	17,605	17,605
	2.50	10/01/15	17,605	17,605	17,605
	2.50	10/01/16	17,605	17,605	17,605
	2.50	10/01/17	19,365	19,365	19,365
	2.50	10/01/18	19,365	19,365	19,365
	2.50	10/01/19	19,365	19,365	19,365
	2.50	10/01/20	19,365	19,365	19,365
	2.50	10/01/21	21,126	21,126	21,126
	2.50	10/01/22	21,126	21,126	21,126
	2.50	10/01/23	21,126	21,126	21,126
Subtotal				329,214	343,298
Less amounts not drawn down				-	(52,344)
Total				329,214	290,954

# City of Roseville, Michigan

## Schedule of Indebtedness (Continued) June 30, 2005

Description	Interest Rate (Percent)	Date of Maturity	Amount of Annual Maturity	Principal Outstanding	
				June 30	
				2005	2004
County Drain Contract Obligations (Continued)					
Lake St. Clair Water Initiative Drainage District - Series A					
Date of issue - June 1, 2004					
Amount of issue - \$1,094,500					
	4.30	10/01/05	\$ 26,268	\$ 26,268	\$ 26,268
	4.30	10/01/06	27,363	27,363	27,363
	4.30	10/01/07	27,363	27,363	27,363
	4.30	10/01/08	28,457	28,457	28,457
	4.30	10/01/09	29,552	29,552	29,552
	4.30	10/01/10	30,646	30,646	30,646
	4.30	10/01/11	31,740	31,740	31,740
	4.30	10/01/12	32,835	32,835	32,835
	4.30	10/01/13	33,929	33,929	33,929
	4.30	10/01/14	35,024	35,024	35,024
	4.30	10/01/15	37,213	37,213	37,213
	4.30	10/01/16	38,307	38,307	38,307
	4.30	10/01/17	40,496	40,496	40,496
	4.30	10/01/18	41,591	41,591	41,591
	4.30	10/01/19	43,780	43,780	43,780
	4.30	10/01/20	45,969	45,969	45,969
	4.30	10/01/21	48,158	48,158	48,158
	4.30	10/01/22	51,442	51,442	51,442
	4.30	10/01/23	53,631	53,631	53,631
	4.30	10/01/24	56,914	56,914	56,914
	4.30	10/01/25	60,198	60,198	60,198
	4.30	10/01/26	63,481	63,481	63,481
	4.30	10/01/27	65,670	65,670	65,670
	4.30	10/01/28	71,142	71,142	71,142
	4.30	10/01/29	73,331	73,331	73,331
				1,094,500	1,094,500
Total County Drain Contract Obligations			\$ 10,887,868	\$ 13,272,541	

# City of Roseville, Michigan

## Schedule of Indebtedness (Continued) June 30, 2005

Description	Interest Rate (Percent)	Date of Maturity	Amount of Annual Maturity	Principal Outstanding	
				June 30 2005	2004

### Installment Loan Obligation

Installment loan - Computer Software

Date of issue - July 2001

Amount of issue - \$270,748

4.08	06/01/05	\$	57,838	\$	-	\$	57,924
4.08	06/01/06		60,418		60,418		60,418

Total Installment Loan Obligations				<b>\$</b>	<b>60,418</b>	<b>\$</b>	<b>118,256</b>
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# **City of Roseville, Michigan**

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**Federal Awards  
Supplemental Information  
June 30, 2005**

# City of Roseville, Michigan

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## Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council  
City of Roseville, Michigan

We have audited the basic financial statements of the City of Roseville, Michigan for the year ended June 30, 2005 and have issued our report thereon dated November 23, 2005. Those basic financial statements are the responsibility of the management of the City of Roseville, Michigan. Our responsibility was to express an opinion on those basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the City of Roseville, Michigan taken as a whole. The accompanying schedule of expenditures of federal awards and reconciliation of basic financial statements federal revenue with schedule of expenditures of federal awards are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The information in these schedules has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Plante & Moran, PLLC*

November 23, 2005



A worldwide association of independent accounting firms

Report on Internal Control Over Financial Reporting and on Compliance  
and Other Matters Based on an Audit of Financial Statements Performed  
in Accordance with *Government Auditing Standards*

To the Honorable Mayor and  
Members of the City Council  
City of Roseville, Michigan

We have audited the financial statements of the City of Roseville, Michigan as of and for the year ended June 30, 2005 and have issued our report thereon dated November 23, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City of Roseville, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Roseville, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

To the Honorable Mayor and  
Members of the City Council  
City of Roseville, Michigan

This report is intended solely for the information and use of the City Council, management, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

*Plante & Moran, PLLC*

November 23, 2005

## Report on Compliance with Requirements Applicable to the Major Program and on the Internal Control Over the Compliance in Accordance with OMB Circular A-133

To the Honorable Mayor and  
Members of the City Council  
City of Roseville, Michigan

### **Compliance**

We have audited the compliance of the City of Roseville, Michigan with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to the major federal program for the year ended June 30, 2005. The major federal program of the City of Roseville, Michigan is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the City of Roseville, Michigan's management. Our responsibility is to express an opinion on the City of Roseville, Michigan's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the federal program occurred. An audit includes examining, on a test basis, evidence about the City of Roseville, Michigan's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Roseville, Michigan's compliance with those requirements.

In our opinion, the City of Roseville, Michigan complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2005.

To the Honorable Mayor and  
Members of the City Council  
City of Roseville, Michigan

### **Internal Control Over Compliance**

The management of the City of Roseville, Michigan is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Roseville, Michigan's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the City Council, management, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

*Plante & Moran, PLLC*

November 23, 2005

# City of Roseville, Michigan

## Schedule of Expenditures of Federal Awards Year Ended June 30, 2005

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Pass-through Entity Project/Grant Number	Award Amount	Federal Expenditures
U.S. Department of Urban Development - Direct Fund Community Development Block Grant:				
Program Year 2004: B-00-MC-26-00010	14.218	N/A	\$ 678,000	\$ 265,206
Program Year 2005: B-00-MC-26-00010	14.218	N/A	672,000	341,620
Total Community Development Block Grant				606,826
U.S. Department of Agriculture - Passed through MI Dept of Agriculture - Emerald Ash Borer Tree Removal in Southeast MI Grant	10.025	791N4002299	2,867	2,117
U.S. Department of Transportation:				
Passed through MI Dept of Transportation:				
Federal Highway Administration	20.205	HH3547 56139A	581,589	7,640
Federal Highway Administration	20.205	HH3484 49877A	345,500	3,717
Federal Highway Administration	20.205	HH3228 49875A	181,976	5,955
Total Federal Highway Administration				17,312
Passed through MI State Police - 2004 Drive MI Safety Task Force	20.215	N/A	22,151	22,151
Total U.S. Department of Transportation				39,463
U.S. Department of Justice - Direct Awards:				
(2003-LB-BX-0528)	16.592	N/A	28,303	14,708
(2004-LB-BX-0514)	16.592	N/A	11,906	11,906
2002 Bulletproof Vest	16.607	N/A	11,133	747
Total U.S. Department of Justice - Direct Awards				27,361
Passed through Drug Enforcement Administration - Organized Crime Drug Enforcement Task Forces	N/A	17-04-0228	35,871	35,871
Passed through Macomb Co. Department of Emergency Management - Enforcing Underage Drinking Laws Program	16.727	OJJDP-05-23	1,865	1,865
Passed through Macomb Co. Department of Emergency Management - 2004 COPS Interoperable Communication Technology Program	16.710	2004-INWX-0011	46,444	46,163
Total U.S. Department of Justice				111,260
U.S. Department of Homeland Security - Federal Emergency Management Agency:				
Passed through Office for Domestic Preparedness:				
2003 Assistance to Firefighter Grant	97.044	EMW-2003-FG-1229	41,553	41,553
2004 Assistance to Firefighter Grant	97.044	EMW-2004-FG-2070	167,159	-
Total Passed through Office for Domestic Preparedness				41,553
Passed through MI State Police, Emergency Management Division - State Homeland Security Grant Program II Training Grant	97.044	N/A	30,085	30,085
Passed through Macomb Co. Department of Emergency Management:				
2004 Homeland Security Grant Program	97.004	N/A	6,923	6,923
2003 State Homeland Security Grant Program Exercise Grant	97.007	N/A	2,832	2,832
2002 State Domestic Preparedness Program Grant	97.007	N/A	4,145	4,145
Total Passed through Macomb Co.				13,900
Total U.S. Department of Homeland Security				85,538
Total federal awards				<u>\$ 845,204</u>



## City of Roseville, Michigan

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### **Reconciliation of Basic Financial Statements Federal Revenue with Schedule of Expenditures of Federal Awards Year Ended June 30, 2005**

Revenue from federal sources - As reported on financial statements (includes all funds)	\$ 821,123
Amounts spent by the City of Roseville during the year ended June 30, 2004 and not reimbursed by the U.S. Department of Transportation until year ended June 30, 2005	(18,544)
Amounts spent by the City of Roseville not yet reimbursed by the U.S. Department of Transportation	9,791
Amounts spent by the City of Roseville not yet reimbursed by the U.S. Department of Justice	24,965
Amounts spent by the City of Roseville not yet reimbursed by the U.S. Department of Homeland Security	<u>7,869</u>
Federal expenditures per the schedule of expenditures of federal awards	<u><b>\$ 845,204</b></u>

# City of Roseville, Michigan

## Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2005

### Note 1 - Significant Accounting Policies

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Roseville, Michigan and is presented on the same basis of accounting as the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

### Note 2 - Subrecipient Awards

Of the federal expenditures presented in the schedule, federal awards were provided to subrecipients as follows:

Program Title/Project Number/Subrecipient Name	CFDA Number	Current Year Cash	
		Transferred to Subrecipient	
U.S. Department of Housing and Urban Development - Community Development Block Grant - Passed through to:	14.218		
Turning Point		\$	600
Solid Ground			40,000
CHORES			33,618
Lighthouse			20,928
Care House			5,000
MCREST - Shelter Program			8,904
St. Vincent De Paul			13,566
HABITAT - Macomb County			20,423
Total project number		\$	<u>143,039</u>

### Note 3 - Program Income

During the year, the Community Development Block Grant Program (CFDA No. 14.218) also recognized \$332,557.29 of program income consisting of loan repayments and interest. The income was expended on additional residential rehabilitation projects.

# City of Roseville, Michigan

## Schedule of Findings and Questioned Costs Year Ended June 30, 2005

### Section I - Summary of Auditor's Results

#### Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_\_\_ Yes   X   No
- Reportable condition(s) identified that are not considered to be material weaknesses? \_\_\_\_\_ Yes   X   None reported

Noncompliance material to financial statements noted? \_\_\_\_\_ Yes   X   No

#### Federal Awards

Internal control over major program(s):

- Material weakness(es) identified? \_\_\_\_\_ Yes   X   No
- Reportable condition(s) identified that are not considered to be material weaknesses? \_\_\_\_\_ Yes   X   None reported

Type of auditor's report issued on compliance for major program(s): Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?   X   Yes \_\_\_\_\_ No

Identification of major program(s):

CFDA Number(s)	Name of Federal Program or Cluster
----------------	------------------------------------

14.218	Community Development Block Grant
--------	-----------------------------------

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? \_\_\_\_\_ Yes   X   No

# City of Roseville, Michigan

## **Schedule of Findings and Questioned Costs (Continued)** **Year Ended June 30, 2005**

### **Section II - Financial Statement Audit Findings**

Reference Number	Findings
	None

### **Section III - Federal Program Audit Findings**

Reference Number	Findings
	None

November 23, 2005

Honorable Mayor and Members  
of the City Council  
City of Roseville  
29777 Gratiot Avenue  
Roseville, MI 48066

Dear Mayor and Council Members:

We recently completed our audit of the financial statements of the City of Roseville, Michigan for the year ended June 30, 2005. In addition to our audit report, we offer the following comments and recommendations for your consideration.

### **FINANCIAL RESULTS**

For the year ended June 30, 2005, the City's General Fund fund balance decreased by approximately \$1,100,000. Revenues and other financing sources increased approximately \$178,000, or less than 1% from the prior year. The General Fund's expenditures and operating transfers out increased by \$1,761,000, or approximately 6% from 2004 to 2005. This increase in expenditures was primarily attributable to the following factors:

- An approximate \$1,243,000 increase in the portion of post-retirement healthcare benefits funded by the General Fund. This expense had been historically funded through the City of Roseville's Pension Trust Fund System.
- Combined cost increase of approximately \$1,331,000 related to higher funding requirements for the City's retirement system, increased employee health care costs for current employees and an increase in unemployment and workers compensation expense.
- Other cost increases related to the operation of the new senior center and needed vehicle purchases by the Public Works department.

While the City Council, as well as department heads and staff, have enacted proactive methods to reduce costs, the increasing costs associated with required pension contributions as well as increasing healthcare costs for both current and retired employees are requiring the City to utilize fund balance. Increases in these costs are largely the result of economic variables outside of the control of Council such as lower than required investment returns and high medical inflation rates. These same economic factors are causing financial constraints on all organizations. For governmental entities operating under Michigan's municipal financial model the results have been particularly troubling as the State has been reducing state shared

revenue payments since 2001 and restricts growth of property tax revenue under Proposal A and the Headlee Amendment. Thus, mature communities such as Roseville are finding it increasingly difficult to fund essential operating costs and provide basic services. We understand that for fiscal 2006 the City currently has a budgeted reduction/use of fund balance in the General Fund that is in excess of \$3.7 million.

In light of the developments noted above, we support the City in its continued efforts to exercise strong expenditure controls within all departments, continue its examination and allocation of program costs, and examination of current service levels.

We strongly support the City in its plan to develop a multi-year operational and capital plan in order to ensure continued financial viability over the long-run in this uncertain municipal environment and we have developed several tools to assist local governments with a multi-year financial plan. We offer our assistance to the City in this difficult process and compliment the City for getting a head start on this process and its willingness to closely examine its financial future in light of developments that have occurred.

### **SIGNIFICANT CITY EXPENDITURES**

#### **EMPLOYEES RETIREMENT SYSTEMS**

As indicated above, employee post-retirement health care benefits had been historically funded through the City of Roseville Employees' Pension Trust Fund System in accordance with Public Act 28 of 1966. As defined in the Public Act, funding of post-retirement health care benefits is limited to investment income in excess of an actuarially determined limit. City Management in conjunction with the City's actuary has performed the calculation for each year ending subsequent to June 30, 2003. Due to the depletion of the health care reserve within the Employees' Pension Trust Fund System and with limited investment income in recent years, the General Fund funded a portion of expenditures for post-retirement health benefits on behalf of the Employees' Pension Trust Fund System during the current year. Total post-retirement health care benefit costs were approximately \$2,955,000 in the current year. The General Fund expended approximately \$1,243,000 of that cost and the Pension Trust Fund System funded the remaining \$1,712,000. With the post-retirement health care reserve dropping to only \$380,000 at June 30, 2005, the General Fund can expect post-retirement health care costs to increase by at least \$1.3 million for the year ending June 30, 2006. The City continues to analyze the impact of this cost on the General Fund and appropriately allocate costs to the applicable funds.

#### **DEFINED BENEFIT PENSION PLAN**

The City currently operates a single-employer defined benefit pension that is administered by the City of Roseville's Employees' Pension Trust Fund System. This plan covers substantially all employees of the City. The system provides retirement, disability, and death, and health benefits to plan members and their beneficiaries. The employee is required to contribute 6.5 to 7.0 percent and the employer is required to contribute at an actuarially determined rate. Due to low investment returns in the recent years, the amount required to be contributed by the employer in order to properly fund the system has increased substantially since June 30, 2002.

The required contribution for the year ending June 30, 2005 was \$3,295,298; this was an increase of approximately \$482,000 or 17% from the prior year. The expected contribution for the year ending June 30, 2006 is \$3,885,102; this is an additional increase of \$589,804 or approximately 18%. The City should continue to monitor and plan for the increased costs associated with properly funding the System

### **HEALTH CARE AND OTHER COSTS**

As previously mentioned, healthcare costs continue to be a significant cost to the City. We continue to recommend that the City aggressively review all of its options related to healthcare benefits provided (i.e., increased co-payments, higher deductibles, alternative insurance, etc.). Health care costs for all funds increased approximately \$1,159,350 or 19% from 2004 to 2005.

### **STATE SHARED REVENUE**

The Governor's budget for the State of Michigan's fiscal year 2005/2006 provides for both constitutional and statutory revenue sharing at approximately \$1.1 billion, which is basically the fiscal year 2004/2005 funding level. In essence, no further reductions to revenue sharing below the current FY 04/05 funding level were being proposed. During the budget deliberation process over the spring and summer, cuts were proposed by the Legislature to revenue sharing and then subsequently restored. While the expectation is that revenue sharing payments on an individual community by community basis for fiscal year 2005/2006 will be funded at fiscal year 2004/2005 levels, the Legislature still must finalize its budget negotiations and the revenue sharing act will require an amendment to accomplish distribution in this manner.

State shared revenue accounts for approximately 17% of the City's total General Fund revenue. The table below details state shared revenue for the City over the past six years broken out by statutory and constitutional portions. In addition, it details the total decrease in state shared revenue experienced by the City compared to the State's fiscal year 2000.

<u>Fiscal Year</u>	<u>Actual Revenue Sharing</u>	<u>Revenue Sharing if City Received Inflationary Increases</u>	<u>Cumulative Lost Revenue Sharing Payments</u>
2000	\$6,367,299	\$6,367,299	
2001	\$6,222,742	\$6,488,279	\$265,536
2002	\$5,971,086	\$6,695,903	\$990,353
2003	\$5,684,033	\$6,910,172	\$2,216,492
2004	\$5,108,541	\$7,013,825	\$4,121,776
2005	\$5,046,917	\$7,175,143	\$6,250,002

We will continue to update the City as developments occur.

#### **INTERNAL CONTROL AND FRAUD PREVENTION**

During the current year, we were again required to perform the extra inquiries and testing required by the Statement on Auditing Standards Number 99 (SAS 99) entitled Consideration of Fraud in a Financial Statement. The Board should be pleased to note our testing did not reveal any material weaknesses not already addressed by the City.

#### **PROPERTY ASSESSMENT CAP**

As you recall, Proposal A limits the growth in taxable value to the lesser of inflation or 5 percent. The inflation factor for this calculation is published by the State Tax Commission and is:

2005	2.3%
2004	2.3%
2003	1.5%
2002	3.2%
2001	3.2%
2000	1.9%
1999	1.6%
1998	2.7%
1997	2.8%
1996	2.8%
1995	2.6%
1994	3.0%

The 2004 inflation factor was used for property taxes levied in the City's fiscal year ended June 30, 2005. Property taxes are the City's largest source of General Fund revenue. However, as indicated above, growth in existing property can be significantly limited due to Proposal A. This factor should be considered when the City is performing long-term financial planning.

Also, as you probably recall, the Headlee Amendment to the Michigan Constitution limits the amount of taxes that can be levied by the City. In general terms, if growth on the City's existing property tax base exceeds inflation for a particular year, the Headlee Amendment requires the



City to "roll back" its property tax rate to inflation. Prior to the passage of Proposal A in 1994, during years when the growth on the City's existing property tax base was less than inflation, the Headlee Amendment allowed the City to "roll up" its property tax rate and recover from years when the property tax rate was "rolled back." However, subsequent to the passage of Proposal A and as a result of changes made to the State's General Property Tax Act, the City is no longer allowed to "roll up" its property tax rate in years when growth on its existing tax base is less than inflation.

### **CONDITION OF ACCOUNTING RECORDS AND CONTROLS**

We would like to commend the City for continuing to improve and maintain an improved system of accounting controls and procedures during the year ended June 30, 2005. The City has maintained and improved the internal process of the bank reconciliation procedures, the tracking of the county drain and Michigan Department of Transportation projects, and the tracking of METRO monies spending by movement to the Local Streets Fund. The City's concentrated effort to improve these items during the year ended June 30, 2005 served to further strengthen the City's internal control structure.

### **LEGISLATIVE AND OTHER MATTERS**

#### **PERSONAL PROPERTY TAX**

As noted in the financial statement footnotes for the current year, several years ago the State Tax Commission approved new personal property tax tables for utilities (which made drastic changes to the transmission and distribution property of utilities and resulted in a corresponding revenue loss to local governments). The City, like many communities, elected to continue to assess the transmission and distribution property of utilities using the old personal property tax tables which generated a series of lawsuits on this subject. To date, the new utility personal property tax tables implemented by the State Tax Commission have been upheld.

To date, an agreement has recently been reached with DTE Energy to settle all current and outstanding utility appeals with Detroit Edison Company and the Michigan Consolidated Gas Company. The settlement is structured such that no money, in the form of tax refunds or additional taxes, need be exchanged between the utilities and local governmental units for the tax years of 1997 through 1999 that are under dispute. The agreement has approximately ten stipulations that must be adhered to for it to be finalized. The more significant ones are as follows:

- In the next three years, if a city uses any multipliers to value Michigan Consolidated Gas Company or Detroit Edison personal property, other than the presently approved STC multipliers, the utility can enforce a judgment from 1997 through 1999, involving refund of taxes with interest
- Each year that the City or Township abides by the agreement, a year of the 1997-1999 potential refunds is dropped

Due to this agreement being contingent on the settlement of eight Wayne county communities, the agreement formally only addressing the years 1997-1999 and not the portion of the City's liability subsequent to 1999, and the liabilities not being eliminated immediately but over the next three years, the City has maintained this liability on the statement of net assets only for the year ended June 30, 2005.

### **CREDIT CARD POLICY**

It is our understanding, that there is currently a credit card policy drafted in 1996. We would encourage the City to explore whether the current credit card policy is adequate to cover current credit card usage within the City. In addition, the internal controls related to the review of the credit card monthly bills and the number of cards issued should be reviewed.

### **RETIREE HEALTH CARE FUNDING**

The Governmental Accounting Standards Board (GASB) has recently released Statement Number 45, Accounting and Reporting by Employers for Post employment Benefits Other Than Pensions. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" post employment benefits (other than pensions). The intent of the new rules is to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. These new rules will apply to the government wide financial statements, rather than the individual fund level.

However, the new pronouncement will require a valuation of the obligation to provide retiree health care benefits, including an amortization of the past service cost over a period of up to 30 years. The valuation must include an annual recommended contribution (ARC). While the ARC does not need to be funded each year, any under funding must be reported as a liability on the government wide statement of net assets. We anticipate that this will result in a significant pressure to fund the actuarially recommended contribution on an annual basis.

This statement will be effective for the City's 2009 fiscal year. The requirement for a valuation allows for an internal valuation to be performed (without the need to hire an actuary) only if you have less than 100 total participants (defined as the sum of retirees currently receiving benefits, plus terminated employees who are eligible to receive in the future, plus current employees for which you have offered retiree health care).

Since the City does not have less than 100 total participants, the City will need to hire a professional actuary. We remind you that it generally requires up to three to six months for an actuarial valuation plus six months lead time to work the numbers into the budget. Therefore, we recommend that you begin the actuarial valuation at least one year prior to the 2009 budget.

Honorable Mayor and Members  
of the City Council

-7-

November 23, 2005

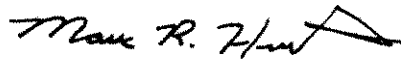
**MUNICIPAL FINANCE ACT REVISIONS – REMINDER**

The Municipal Finance Act was amended several years ago. Communities are now required to submit a filing once a year with the Michigan Department of Treasury. The old ten day "exemption from prior approval" process has been eliminated and is replaced with this qualification process. This filing will serve as a pre-approval for future debt issues. The current filing is due within six months of the City's year end June 30, 2005, and is good for one year thereafter.

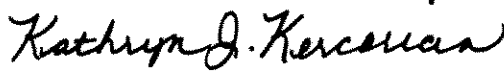
We would like to thank you and your staff for the courtesy and cooperation extended to us during this audit. If you have any questions regarding this letter, please feel free to contact us.

Very truly yours,

**PLANTE & MORAN, PLLC**



Mark R. Hurst



Kathryn J. Kercorian